Economic Council of Canada | Conseil économique du Canada

news release/communiqué

PR 78/01

FOR RELEASE
TUESDAY, JANUARY 17, 1978

OTTAWA -- Governments should implement a wage policy in the public sector, according to a study on wage determination in major collective agreements* published under the auspices of the Economic Council of Canada. The authors, Jean-Michel Cousineau and Robert Lacroix, find that wage behaviour in the public sector poses a serious threat to economic stability, particularly in periods of stagflation. Consequently, they believe that a wage policy should be implemented by government in cooperation with unions.

This study was conducted over the last two years using statistics compiled by Labour Canada between 1967 and 1975, before wage and price controls began. It focuses exclusively on the major collective agreements covering bargaining units of 500 members or more, with the exception of the construction industry. In total, more than 3,200 collective agreements were surveyed to test various hypotheses put forward by the

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* JEAN-MICHEL COUSINEAU and ROBERT LACROIX, Wage Determination in Major Collective Agreements in the Private and Public Sectors, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa, Cat. No. EC22-55/1977; price: Canada, $4.00; other countries, $4.80; 142 pages.)

the authors. These agreements affect between 20 and 25 per cent of all non-agricultural paid workers and directly cover three out of five unionized employees. It is worth noting that whereas in 1967 employees in the public and quasipublic sectors comprised only 14 per cent of all those included in major collective agreements, they now represent almost half. The authors also point out that the public sector constitutes a relatively homogeneous "critical mass" for which bargaining is much more centralized than in the private sector.

MARKET FORCES

Mr. Cousineau and Mr. Lacroix's study reaffirms the importance of labour market conditions on wage determination in the private sector, thereby discrediting the claim that the presence of unions eliminates the effect of market forces on wages. According to the authors, the increased unionization of workers has merely altered the channels and mechanisms by which economic agents become aware of the forces in play. They find that "wage developments in the private sector have been in line with prevailing market forces and the desire of workers to protect their real income in so far as possible." (p. 115) Furthermore, wage developments in the private sector, unlike in the public sector, have at no time increased the rate of inflation.

The rise of unions in the public sector has had a marked impact on the rate of increase of wages and on reducing wage disparities. Wages in this sector are very sensitive to inflation but relatively impervious to labour market conditions. For example, a high rate of unemployment will negatively affect wage agreements in the private sector but it will

have very little impact on those in the public sector. If the rate of inflation accelerates, wage agreements in the public sector are likely to react much more strongly than those in the private sector. The authors attribute this sensitivity in the public sector to its particular "vulnerability" to the unionization of its employees and to pressure from unions.

In summary, their comparison of wage behaviour in the private and public sectors between 1961 and 1975, leads Mr. Cousineau and Mr. Lacroix to conclude that:

- *wages in the public sector are clearly more sensitive to inflation than those in the private sector;*

- *wages in the public sector are much less sensitive to labour market conditions than those in the private sector;*

- *only in the public sector have relatively low wages risen by more than higher wages.*

This has important consequences for general economic policy-making. The divergence in wage sensitivity between the public and private sectors widens the gap in their relative wage, which is particularly pronounced during periods of stagflation. Wage developments in the public sector exert upward pressure on wages in the private sector, with undesirable consequences for employment, inflation, and the competitive position of the Canadian economy.

CATCHING UP: A NEGLIGIBLE IMPACT

The authors tested the hypothesis that when losses are experienced because inflation was not correctly anticipated - as occurred

from 1973 to 1975 - the subsequent rise in wages can be explained by wage catch-up. They conclude that the impact of catching up on the rate of increase of wages only affected the private sector of the economy, and even here it was negligible. This is not to say that workers never react to a deterioration in their real income. Rather, in the particular situation they experienced in 1973 and 1974, the desire to make up for past losses does not appear to have played an important role in subsequent wage developments.

The authors conclude that it is anticipated price increases, rather than real wage losses already incurred, that explain recent wage developments in the private and public sectors.

STRIKES AND INFLATION

The authors show that strikes did not worsen inflation, despite the tendency to believe that there is a causal relationship between the number of strikes, nominal wage increases and the growth of inflation. They observe that private sector wage agreements signed after a strike are no different from those reached without a strike.

As well, the authors examine whether heightened strike activity leads to excessive wage increases and, consequently, inflation, and conclude that strikes are the result rather than the cause of economic instability.

Lastly, they note that various forms of intervention in collective bargaining, such as arbitration, conciliation, and mediation, do not greatly affect the resulting wage agreements.

POLITICAL DECISIONS

Mr. Cousineau and Mr. Lacroix maintain that wage developments in the public sector could constitute " a significant factor in aggravating at home the effect of international economic disturbances." (p. 116) The authors also note the relationship between wage behaviour in the public sector and the relative absence of restrictions in this sector. The fact that governments are able to redistribute income in their favour and have easy access to loans gives them a clear advantage over private firms.

Since the growth in wages in the public sector depends largely on decisions that are mainly "political", the criteria for these decisions should serve as a basis for establishing an adequate wage policy. Without entering into the details of such a policy, the authors determine some prerequisites. First, there is no need to control wages in the private sector since they are already subject to market restrictions. But "wage settlements in the private sector would be easier to achieve if they were not regularly subject to the pressure of particularly generous settlements in the large public sector." (p. 117)

Second, any wage policy should be geared to avoid disparities in wage behaviour between the private and public sectors.

Finally, a wage policy could not be effectively implemented without concerted action by the economic agents involved. In Mr. Cousineau and Mr. Lacroix's opinion, "any wage policy devised unilaterally will not alter union pressure or the vulnerability of governments to such pressure."

Jean-Michel Cousineau is a professor at the school of Industrial Relations at the University of Montreal. Robert Lacroix is Director of the Department of Economics at the University of Montreal.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 78/02

FOR RELEASE
MARCH 1, 1978

OTTAWA -- Income distribution in Canada would be harmed if Canada were to unilaterally adopt a free trade policy or participate in a free trade area with the United States.

In a study* published under the auspices of the Economic Council of Canada, Dr. Roma Dauphin finds that such trade policies would result in a drop in real wages across the country and an offsetting rise in the price of natural resources. Since this would cause a redistribution of income away from labour and towards the owners of natural resources, it would be followed by a readjustment in the wealth of the major economic regions in the country.

With a unilateral end to customs duties and certain non-tariff barriers, per capita income in the Prairies, the Atlantic provinces and British Columbia would rise by approximately 4 per cent as a result of the increase in the price of natural resources.

By contrast, Ontario would become relatively less important in the Canadian economy as a result of this trade policy because of

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*ROMA DAUPHIN, The Impact of Free Trade in Canada, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa; Catalogue No. EC22-56/1978; price: Canada, $4.50; other countries, $5.40; 185 pages.)

its high concentration of manufacturing industry. Since the price of manufactured goods would fall relative to natural resources, wages would tend not to rise and workers who were sufficiently mobile would move to the western provinces.

Such a policy would, however, have its most serious repercussions in Quebec. There would be an immediate increase in unemployment because of the lack of mobility of the Quebec labour force. As well, wage disparities between Quebec and the rest of Canada would widen over the long run. The author believes that even though some of the unemployment resulting from free trade could be absorbed by the falling birth rate, any trade policy which reduces Quebec's importance in Confederation could fan nationalist sentiment.

Dr. Dauphin maintains that compensatory mechanisms should be established for regions adversely affected by a policy of increased free trade. He suggests that trade diversification and growing technical co-operation with the European Economic Community, as well as greater processing of natural resource products, could minimize the negative effects of unilateral free trade. Furthermore, these policies could increase the real income of Canadians without the undesirable redistributive effect of unilateral free trade.

TO THE BENEFIT OF MULTINATIONALS

In addition to studying the effects of unilateral free trade, Dr. Dauphin's study examines the consequences of a customs union between Canada and the United States. This free trade area would correspond to an exchange of privileges between trading partners in the form of industrial subsidies.

He concludes that "Canada does not have an intra-union comparative advantage in secondary manufacturing, and thus such an arrangement would render Canada subject to exploitation by the U.S. manufacturers." Hence, before strengthening present trade agreements with her southern neighbour, Canada should demand certain production safeguards, such as those contained in the Auto Pact, to avoid unduly taxing the Canadian manufacturing industry. The author casts doubt on the economic benefits that Canada has supposedly derived from certain trade agreements. In his opinion, the creation of a free trade area can be seen as a protectionist policy and as such should be "dismissed as a viable commercial policy option for Canada."

He mentions, among other things, that certain trade guarantees cause a welfare loss in Canada as they are equivalent to a disguised production subsidy paid and administered by the U.S. parent company to its Canadian subsidiary. This means that the gains in technical efficiency that might result from rationalization of an industry on a North American scale could benefit certain American multinationals but not necessarily Canada.

Finally, Dr. Dauphin's study suggests that Canada take advantage of the present GATT (General Agreement on Tariffs and Trade) talks to trade some tariff concessions in order to increase her natural resource processing. Through GATT, Canada can try to negotiate "a reduction in Canada's highest tariffs in compensation for reduction in foreign tariffs in the Canadian resources products industry most likely to expand in the region of high unemployment and low per capita income."

Dr. Dauphin's study was part of the research carried out for the Economic Council of Canada's report on commercial policy, Looking Outward: A New Trade Strategy for Canada,* published in 1975.

Dr. Dauphin is Assistant Dean of the Faculty of Arts at the University of Sherbrooke.

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*Economic Council of Canada, Looking Outward: A New Trade Strategy for Canada, Ottawa, Supply and Services Canada, 1975.

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N.B. This study reflects the views of the author and not necessarily those of the Economic Council of Canada.

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Conseil économique du Canada

news release/communiqué

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PR 78/03

FOR RELEASE
APRIL 25, 1978

OTTAWA -- Rising inflation was a major factor responsible for a 30 per cent reduction in current net incomes of Canadian manufacturing and other non-manufacturing business firms in 1973 and 1974, despite the transfer of income from creditors to debtors associated with long-term financing at relatively low interest rates.

According to Glenn P. Jenkins, whose study* of the impact of inflation on business was released today by the Economic Council of Canada, the combination of inflation and the use of traditional accounting procedures has distorted the presentation of business income and resulted in extra taxes on business activity.

Dr. Jenkins' research was the basis for the fourth chapter of the Council's Thirteenth Annual Review,** published in 1976.

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*GLENN P. JENKINS, Inflation: Its Financial Impact on Business in Canada, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa; Catalogue No. EC22-58/1978; price: Canada, $3.75; other countries, $4.50, 140 pages.)

**Economic Council of Canada, Thirteenth Annual Review: The Inflation Dilemma, Supply and Services Canada, Ottawa, 1976.

This chapter showed, among other things, how inflation changes the distribution of corporate income among owners, creditors, and taxation authorities. In 1974, for example, the amount of additional corporate taxes paid solely because of inflation exceeded $2.6 billion.

Under current corporate tax regulations, firms must value their plant and equipment at their original cost. Since inflation increases the replacement cost of most equipment the author claims it has thwarted the liberal depreciation rules that were originally instituted to provide incentives to business enterprise. He therefore advocates the adoption of an accounting system based on replacement costs that would more accurately reflect the true cash-flow situation confronting the firm.

In addition to plant and equipment, perhaps the most serious damage done by inflation results from the undervaluation of the replacement cost of goods sold from inventories, and the consequent overstatement of taxable income. On this one item, the author estimates that Canadian firms paid $2 billion in inflation-induced taxes in 1974. The industries hardest hit by these additional income taxes were the food and beverage, leather, textiles, wood, furniture, machinery, metal products, and retail and wholesale trade industries.

Inflation also causes a flat loss of real income to holders of cash balances -- i.e., currency and demard deposits -- through money's declining purchasing power. The author estimates that manufacturing and non-manufacturing industries lost $225 million in 1974 due to this erosion in the real value of their cash balances.

On the other hand, inflation brought business enterprise some unexpected benefits. When inflation is rising rapidly and unexpectedly the interest paid by corporate borrowers on their financial liabilities does not fully compensate lenders for the loss of purchasing power and the risks inherent in the outstanding debt. This causes major repercussions on financial returns. Dr. Jenkins notes that the unanticipated transfer of real income from lenders to borrowers of short-term financial obligations in 1974 resulted in a $528 million gain to the manufacturing and non-manufacturing sectors. The financial sector also profited greatly through the declining real value of short-term liabilities on which financial enterprises pay no or small rates of interest. In 1973 alone he estimates a real gain for the financial sector of $1.3 billion. By contrast, depositors and creditors holding such assets suffered net losses.

In the case of long-term assets and liabilities too, unanticipated inflation renders the real value of future principal payments lower than the value expected when the loan was negociated. The author finds that, in each year since 1965, inflation has caused a net income transfer from bond holders to the manufacturing and non-manufacturing firms that issued this type of long-term corporate security. Between 1965 and 1974, this transfer of wealth annually grew from $81 million to $561 million for the manufacturing sector and from $180 million to $894 million for the non-manufacturing sector. Individual savers holding the corporate bonds bore most of the loss, but financial institutions were also relieved of amounts depending on the type of assets they held. In 1973, for example, their loss was estimated at $265 million.

Overall, the government revenue departments came out the big winners in the 1965-74 period. The financial sector also came out ahead. The non-manufacturing sector (excluding utilities and finance) broke about even -- picking up about as much from the real income transfer on its liabilities as it lost in taxes. The manufacturing sector, however, while getting some relief via its borrowings, was the heavy loser through the additional inflation-induced taxes it paid.

Glenn P. Jenkins now is with the Harvard Institute for International Development.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

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PR 78/04

FOR RELEASE
MAY 24, 1978

OTTAWA -- All attempts to establish a system of job security or guaranteed income in the construction industry run into the problems of the extreme diversity of construction employees in terms of their region, trade, age, status, etc.

According to Gérard Hébert, in the second volume* of a study on labour relations in the Quebec construction industry released today by the Economic Council of Canada, we are no closer to stabilizing employment and income than when we first began in the early 1970s, despite the fact that increased centralization and regulation have made Quebec a prime testing ground for such an experiment.**

For this reason, after analyzing the three successive job security systems in the construction industry that generally failed and reviewing the conclusions contained in the Cliche report, the

* GÉRARD HÉBERT, Labour Relations in the Quebec Construction Industry, Volume II, Economic Council of Canada (Printing and Publishing, Supply and Services Canada; Catalogue No. EC22-52/1977-2; price Canada - $5.00; other countries - $6.00; 261 pages)

** Gérard Hébert, Labour Relations in the Quebec Construction Industry, Part I -- The System of Labour Relations, Ottawa, Supply and Services Canada, 1977

author concludes that it would perhaps be preferable to abandon the goal of quantitative manpower control because of the strong risk that "granting permits requested in a period of shortage and refusing them in a period of surplus or unemployment, will accomplish nothing more than perpetuation of a situation determined by other factors."

<u>Profile of the Construction Worker</u>

Professor Hébert's study illustrates the extreme diversity of construction labour in Quebec. In spite of this, the author is able to sketch a portrait of the permanent and marginal construction workers based on his analysis of numerous data.

<u>The permanent construction worker</u> is a tradesman between 25 and 50 years of age. The more specialized his trade and the higher his pay, the more he counts exclusively on this trade for his total annual income, except for a small supplement from outside the construction industry and a little unemployment insurance. Between 1972 and 1975, his average total annual wages grew from $8,000 to $12,000.

<u>The marginal worker</u> is usually an unskilled worker. He is young, often lives outside the large urban centres, earns much more outside construction than in it and draws over one-fourth of his total income from unemployment insurance. Half of the 50,000-odd unskilled workers in the industry earned less than $3,000 in 1972 and less than $5,000 in 1975. One unskilled worker in five earned no more than $500 in construction in 1972 and $1,000 in 1975. Most of these workers attempt a career in construction but do not remain, or work only during the busy months to earn supplementary income.

Great Mobility

Professor Hébert's study stresses the high degree of mobility of construction workers who are not hesitant to change industries, occupations, employers, regions, or even provinces.

On interindustrial mobility, the author remarks that "construction, along with retail trade perhaps, appears to be the industry in which workers come and go with the greatest ease; this is where most young people and newcomers appear at one moment or another when they enter the labour market or seek more stable employment; the construction industry acts as a buffer or vestibule that is necessary in a changing economy but which carries serious disadvantages." He notes that in 1975 only half of the 130,000 workers originally employed in construction in 1971 still remained. Of the 42,000 recruits in 1972, 20,000 had left the industry the following year and 10,000 others left in subsequent years.

Job Security: Problems

The various job security proposals put forth for the Quebec construction industry since 1970 led the author to be very cautious in stating an opinion on the means planned to achieve this valid objective of stabilizing employment and guaranteeing income.

The author believes that the idea of preventing marginal or occasional workers from working in the industry so as to redistribute their hours among the permanent workers is open to criticism and cannot be accepted without serious consideration. In addition, a job security system founded on this principle of redistribution encounters practical problems of operation due to factors such as the imperious character of demand and rapid changes in the availability of labour.

Finally, a job security and guaranteed income plan raises economic and social problems. The cost of such a plan would probably be very high and the assumptions on which the examples provided in the Cliche Report are based are unrealistic, according to Mr. Hébert, who adds that the effect of such a plan on the incentive to work does not appear to have been carefully studied.

Gérard Hébert is a professor at the School of Industrial Relations at the University of Montreal. In October 1977, he was appointed Chairman of the Committee for study and revision of the Quebec Construction Industry Labour Relations Act.

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N.B. This study reflects the views of the author and not necessarily those of the Economic Council of Canada.

Economic Council of Canada / Conseil économique du Canada

news release/communiqué

PR 78/05

DO NOT PUBLISH BEFORE
10:30 a.m. (EST)
Thursday, June 15, 1978

OTTAWA -- Dr. Sylvia Ostry, Chairman of the Economic Council of Canada, today announced the appointment of Robert DOUGLAS as Executive Director of the Centre for the Study of Inflation and Productivity (CSIP), and of Patrick ROBERT as Associate Executive Director.

The Centre was established by the Council at the request of the Prime Minister of Canada, following the wishes expressed by the nation's heads of government at the February 13-15, 1978 Conference.

The task of the Centre for the Study of Inflation and Productivity will be to present to the public and to decision-makers in general, a balanced, independent and informed opinion on Canada's economic performance and outlook in the areas of inflation, productivity and growth.

Robert Douglas, a graduate of the London School of Economics, was formerly the Assistant Deputy Minister of the Saskatchewan Department of Finance. Prior to that he was Director of that Department's Taxation and Fiscal Policy Branch for four years.

Patrick Robert, who holds a Doctorate in Economic Sciences from the University of Paris, was previously employed by the Quebec Public Service as Economic Advisor.

The appointees officially assumed their new posts on June 5, 1978.

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<u>NOTE</u>: Photographs available upon request

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 78/06

DO NOT PUBLISH BEFORE
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Thursday, June 15, 1978

OTTAWA -- Dr. Sylvia Ostry, Chairman of the Economic Council of Canada, told a press conference in Ottawa today that the goal of the newly created Centre for the Study of Inflation and Productivity (CSIP) will be "the deceleration of the underlying rate of inflation".

Dr. Ostry added that "we intend as forcefully and clearly and urgently as we can to point up the serious implications for the Canadian economy and Canadian society of failure to achieve these goals".

The Centre for the Study of Inflation and Productivity is being established in response to a consensus request of the Provincial Premiers arising from the February First Ministers' Conference. Its basic thrust will be to use its analytical and educational capabilities to promote a better understanding of major issues concerning the nature and sources of inflation, productivity and performance on the part of public and private decision-makers as well as the general public.

The Chairman of the Economic Council indicated that after discussing the matter with the Council members, she decided to establish a separate unit within the Council itself. In this way,

the Centre will be able to focus its attention on short- to medium-term problems without drawing resources away from ongoing longer-term Council research.

Dr. Ostry also explained why the Economic Council has agreed to undertake this additional responsibility, as a special "reference" under Section 10 of the Economic Council of Canada Act. "Canada, like every industrial country", the Chairman said, "continues to face the difficult and complex tasks of increasing employment and production while decelerating inflation and maintaining a viable international position". These are not just short-run problems amenable to short-term solutions and the Council's expertise on longer term policy-making will help CSIP's research.

Finally, Dr. Ostry indicated that some cost or price developments could lead to undesirable distortions in the economy and could, as well, have strong destabilizing influences. As the Prime Minister suggested in his reference to the Council, there may be a need for special inquiries. After the Centre has examined a particular development in as much depth as permitted by available public information, the members of the Economic Council will be called upon to assess the gravity of the situation. If they deem it warranted, the Chairman will communicate a recommendation to the government, whose responsibility it would be to establish an inquiry. In such a case, members of the Council would have the opportunity to abstain or dissent from this recommendation.

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Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR 78/07

DO NOT PUBLISH BEFORE
10:30 a.m. (EST)
Thursday, June 15, 1978

OTTAWA -- The Centre for the Study of Inflation and Productivity (CSIP) will have three main functions:

-- Gather various forms of intelligence on the economic situation;

-- Analyse this material to determine which factors may be destabilizing or present barriers to growth;

-- Publicize its findings.

Mr. Robert Douglas, Executive Director of CSIP, told a press conference that the Centre does not have any powers to collect information and will, therefore, rely on publicly available statistics. In addition, Mr. Douglas said, "we hope to be able to gain additional information on an informal basis during the normal course of discussing the economic situation with the main decision-makers".

CSIP will have a staff of about 75 people, and three divisions: Macroeconomic Analysis, Sectoral and Structural Analysis, Communications.

The Macroeconomic Analysis Division will analyse short-term

domestic and international developments from the perspective of the performance of the whole economy. It will track the movements of price and cost indexes and explain the implications of various events for the objectives of stability and growth.

The Sectoral and Structural Analysis Division will look both at economic issues which cut across sectors, such as energy pricing or various forms of indexation, as well as situations peculiar to a specific sector or industry such as productivity and costs in the service sector. To reflect this structure within the Division, there will be a group to deal with labour relations and compensation policy, a group to analyse industrial structure and a sectoral group. This last group will be analysing inflation and productivity developments at the industry and sectoral level as well as gathering intelligence on individual price and compensation decisions that may be destabilizing.

The Communciations Division will have an important role in transmitting to the public the results of the Centre's research and findings in a way which will enhance public understanding. There will be two regular vehicles. First, a quarterly report will analyse and summarize recent developments as well as giving some indication of upcoming events. As well as the quarterly report, various research studies will be published on a regular basis.

Mr. Douglas sees the Centre as a national agency, not only a federal one. Over the coming months, CSIP staff will be approaching various groups including provincial governments, business and labour to explore their particular situation and hopefully to gain some assistance in recruiting.

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PR 78/08

DO NOT PUBLISH BEFORE
11:00 a.m. (EDT)
Tuesday, June 27, 1978

A STUDY OF RELATIONS BETWEEN CANADA AND THE DEVELOPING COUNTRIES

OTTAWA -- For a Common Future is the title of a report, published today by the Economic Council of Canada which assesses in detail Canadian relations with the developing countries -- in trade, investment, aid, and migration. Over recent years, the connections between developed countries and the Third World have undergone profound change. Faced with the numerous challenges raised by these linkages, the economically advanced countries have begun to redefine the orientation of their policies. But this report is perhaps one of the first by an industrialized country to analyse carefully the full range of policy issues involved, against a long-term prognosis for the world economy as a whole.

After noting the gaps existing between the developed and developing countries and studying them within the context of a model of the international environment over the next twenty years, the report examines the objectives of Canada's attempts to improve conditions in the Third World.

In the area of trade (Chapter 4), the Economic Council points out that many developing countries possess a present or potential comparative advantage in the production of goods that are labour-intensive and based on standard technology. "Thus, it makes sense in principle for Canada to encourage the emergence of industrial capability in these nations through appropriate trade and investment policies."

The Council recognizes that such a strategy for liberalizing trade with

developing countries would have considerable repercussions on Canada's industrial structure. The report therefore proposes a two-stage strategy:

-- The federal government should first inject substantial funds into a program of industrial reorganization undertaken jointly with the provinces concerned -- basically Quebec and Ontario.

-- In a second stage, during a stronger phase of the business cycle -- which could be defined in advance as being triggered by a certain level of the national unemployment rate -- Canada would gradually withdrawn the special protection (quotas and other quantitative restrictions on imports) afforded vulnerable industries.

In conjunction with these recommendations, the Council also proposes that, from the date when reductions in tariffs under the "most favoured nation" clause (applying to products from most developed countries) are implemented, Canada should reduce even further the barriers to imports from the least developed countries through modifications to its generalized system of preferences.

With respect to aid (Chapter 5), all but the last of the Council's recommendations are aimed at improving the quality of Canada's program of development assistance and the efficiency with which it is administered. The Council report recommends that the bilateral program be reorganized by limiting the share of funds granted to multilateral non food programs to 35 per cent of all public development aid, while reducing the total number of recipient countries to about 30. If this were done, Canada would have a more significant presence among the new restricted group of recipient countries and would make better use of the resources devoted to administration and analysis of the programs. It is also urged that "project aid" be gradually eliminated from Canada's bilateral aid program and that tied aid also be progressively phased out. In the view of the Council, Canada should carry out an evaluation of the efficiency of aid at least every five years for each of the countries receiving Canadian assistance under the public bilateral development programs.

Finally, the Council proposes that Canada set a minimum volume of public aid for development, so that Canadian aid would never represent less

than 0.5 per cent of the gross national product over the period in which the industrial reorganization program proposed in Chapter 4 remained in force.

As to immigration (Chapter 6), the Economic Council's report establishes that the process of adaptation of immigrants from developing countries is not yet very well understood, due to a lack of data and insufficient studies. To remedy this problem, the Council recommends that necessary statistical data be compiled and that studies be undertaken to propose means for facilitating the adaptation of immigrants and encouraging racial harmony.

In its conclusion (Chapter 7), the Council stresses the need to achieve better co-ordination of the various policies that deal with relations with the developing countries. "It is less than reasonable to provide development assistance to a country with one hand and set up barriers against its products with the other, or to encourage immigration to provide employment for industries that have to be protected against competition from goods originating in those immigrants' homelands. These inconsistencies can only be avoided through the evolution of coherent policies linked to a clearly understood set of goals and effected through close collaboration among the various governmental agencies involved."

Without making a formal proposal, the Economic Coucil offers two alternate solutions: to give one department -- External Affairs, for example -- authority for coordinating policies dealing with all relations with the developing countries or, as found notably in the United Kingdom and the Netherlands, to create a new department, using CIDA as the core, giving it responsibility for integrating these various policies.

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Economic Council of Canada, *For a Common Future: A Study of International Development*, (EC22-5/1978, $4.75 in Canada; $5.70 elsewhere; 136 pages).

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

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PR 78/09

DO NOT PUBLISH BEFORE
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Tuesday, June 27, 1978

THE ECONOMIC COUNCIL PROPOSES A TWO-STAGE STRATEGY: INDUSTRIAL REORGANIZATION FOLLOWED BY LIBERALIZATION OF TRADE

OTTAWA -- The federal government should establish a fund of $4 billion devoted to a wide ranging program of industrial reorganization, according to a report of the Economic Council of Canada on relations with the developing countries, released today. Although these expenditures would not be related directly to Canadian development assistance allocations, the Council's proposal for a moderation in the growth of aid over the coming years implies that these funds would, in a real sense, be applied in a different manner for essentially similar purposes.

As perceived by the Council, this adjustment fund would form part of a two-stage strategy aimed first at fundamentally restructuring some industrial sectors threatened by imports from developing countries -- notably textiles, hosiery and clothing, leather products, some subsectors in the electrical and electronic equipment industry, sporting goods and toys. In a second stage, the strategy proposed by the Economic Council provides for the lifting of barriers to imports of these products.

The program of industrial reorganization, as well as the starting point at which Canada could begin gradually to liberalize trade with the Third World, would be determined jointly with the provinces affected.

All the sectors deemed vulnerable by the Council are heavily concentrated in two provinces. Of the 250,000 jobs possibly at stake, 130,000 are in Quebec and another 100,000 in Ontario. In Canada as a whole, the employment threatened represents 15 per cent of the manufacturing labour

force, or 3 per cent of all jobs. In Quebec it is a quarter of employment in manufacturing, which is 7 per cent of total employment, and in Ontario the corresponding proportions are one eigth and 3.5 per cent.

The Economic Council believes that an average of $16,000 per job created will be required to consolidate or replace the sectors threatened, and it therefore proposes a $4 billion fund whose expenditures would be spread out over 15 years. In its view, the needs of such an ambitious program could justify the creation of a development corporation, at least for the region of central Quebec and eastern Ontario.

Studies prepared as background to the report, entitled "For a Common Future, analyse Canada's trade relations with the developing countries, leading the Council to some strong conclusions. "It has become clear that, in its effort to find a more viable basis for the growth of its manufacturing sector, Canada should take note of what is occurring in the developing world. Many of the developing nations today are embarking upon a new phase of industrial development. Their work forces are energetic and thrifty, and their labour costs are very low."

The Council believes that the concentration of domestic factors of production in industries that are labour intensive and based on standard technology is bound to become an immense liability for Canada. "The transfer of particular activities to low wage countries is a universal trend that Canada is unable to reverse, and the public powers thus have a responsibility to prepare a program of precise action."

Admitting that the deployment of these financial resources in only two provinces could be a bitter pill for the other provinces to swallow, the Council suggests that trade liberalization -- generally favoured in the Atlantic Provinces and the West -- must be a necessary corollary of the adjustment expenditures. Accordingly it suggests that, when the program of industrial reorganization is implemented, a point be fixed -- based, for example, on an acceptable level of unemployment -- when the Canadian system of special quotas and other qualitative restrictions on imports of manufactured products would start to be dismantled, with a target of complete elimination over a ten-year period.

As an indication of what is possible, the report refers to Sweden,

where employment in the textile, clothing and leather products sectors fell from 14.2 to 9.6 per cent of total manufacturing employment in a single decade. This massive transfer of human resources was nonetheless carried out without producing major tensions or serious unemployment.

In conjunction with these recommendations, the Council also advises that, as soon as most-favoured-nation tariffs (those applied to products from the majority of developed countries) are reduced, Canada should further decrease the barriers to imports from the developing countries through modifications to its generalized system of preferences.

In the same chapter on trade and investment, the Council notes that Canada's performance in exports to developing countries is unsatisfactory. The nation lacks a set of policies aimed at producing a better knowledge of certain regions of the world and fostering greater participation in the economics of these regions. For this reason the Council believes that it would be wiser to set up a well-organized system for collecting information on these foreign markets, concentrating on a limited number of countries (about 20 to 25) that show most promise of rapid growth over the medium to long term. In this connection it makes some suggestions about the creation of more flexible facilities for export financing.

Finally, the Council examines the role of Canadian investment in Third World countries. The stock of direct Canadian investment in these countries was on the order of $2 billion in 1974, out of a total of $9 billion of Canadian foreign investment. An evaluation of the impact of such investment tends to demonstrate that the benefits Canada could draw are usually greater than the costs. However, the Council believes that one cannot show unequivocal advantages for the developing countries themselves from direct investment, and it therefore recommends that the programs aimed at encouraging such investment be transferred from the development aid agency (CIDA) to the Department of Industry, Trade and Commerce or the Export Development Corporation.

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Economic Council of Canada
Conseil économique du Canada

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PR 78/10

DO NOT PUBLISH BEFORE
11:00 a.m. (EDT)
Tuesday, June 27, 1978

FOR A QUALITATIVE IMPROVEMENT OF

PUBLIC AID TO DEVELOPMENT

OTTAWA -- Even though Canada's aid program is generally well rated in relation to those of other developed countries, there is room for a wide range of improvements. This view was expressed today in a report of the Economic Council of Canada.

In its study of relations between Canada and the developing countries, the Council recommends that Canada should concentrate more of its aid budget on bilateral programs and reduce to 35 per cent the share of public development aid going to multilateral non-food programs.

The administrative and analytical efficiency of the Canadian bilateral program would be greater if aid were concentrated in some 30 nations only, so that Canada had a greater presence in these recipient countries. At present, the share that Canadian aid represents in total development assistance received by many developing nations is so small as almost to pass unnoticed.

The Council also suggests that untying aid would considerably improve its quality while not producing any serious repercussions for Canada.

As to the long-standing controversy about distribution of aid between multilateral organizations and bilateral programs, it is noted that Canada devotes an important share -- 43.2 per cent in 1976-77 -- to multilateral bodies. The Council is not convinced that these organizations (UN general fund, development banks, etc.) apply Canadian resources in the best

manner as compared with activity that Canada could carry out itself, particularly taking into account the recommendations on the efficiency and quality of bilateral programs. For this reason, the Council concludes that CIDA should adhere more rigidly to the limit of 35 per cent of the total budget devoted to multilateral non-food programs.

The Council also feels that the sums devoted to bilateral programs are too dispersed. To have a significant presence, in the Council's opinion, a donor country should provide at least 10 per cent of the total aid received by the recipient country. It finds that, in 1974, out of the 12 countries where Canada had such a significant presence, only three were among the main recipients of its aid. Thus the Council's recommendation aims at a greater concentration of Canada's bilateral aid program in two different ways: first, by reducing the number of recipient countries it would ensure that each of these received a greater proportion of the bilateral aid; second, the distribution of aid would be changed so that Canada would have a significant presence in a greater number of recipient countries.

Tied aid (now 85 per cent of all Canada's bilateral aid), under which it is required that recipient country obtain associated goods and equipment from Canadian sources, is less than fully efficient in the Council's view. It reports the result of a study to the effect that lowering the proportion of tied aid in all bilateral programs from 85 to 40 per cent would have insignificant consequences on Canada's balance of payments. As to the industrial effects on the country, the Council concludes that the cost of its recommendation would be approximately 4,000 jobs and shipments to a value of $50 million in 1961 dollars. It urges that a gradual untying of aid to developing countries should occur once substantial improvement had begun in Canada's economic situation.

The Economic Council also believes that the Canadian government should establish a system for controlling the efficiency of aid in each of the 30 developing countries that become recipients. This evaluation should be carried out at least once every five years.

Finally, the Council points out that the opening of Canada's market to industrial products from developing countries would particularly benefit the richest among them. For the poorer countries of the Third World, public

development aid will remain for a long time to come the only form of assistance. Therefore, in order to ensure a gradual growth of public development aid, it is recommended that the volume of Canadian assistance to developing countries never be less than 0.5 per cent of Canada's GNP throughout the entire duration of the industrial reorganization program.

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PR 78/11

DONNOT PUBLISH BEFORE
11:00 a.m. (EDT)
Tuesday, June 27, 1978

SIGNIFICANT INCREASE IN IMMIGRATION FROM THE THIRD WORLD

OTTAWA -- The adoption of universal criteria for immigration, combined with the increase in the number of potential immigrants from developing countries, has resulted in the immigration to Canada of a greater number of people from the Third World. In its report on relations between Canada and the developing countries, the Economic Council notes that the share of total immigration represented by newcomers from these areas rose from 8 per cent in 1961 to 52 per cent in 1975, for an average of 27 per cent over the entire period. However, at the time of the 1971 census, those born in developing countries accounted for only 1.5 per cent of Canada's population.

Even though the absolute level of immigration may be declining, the Council believes that "the proportion of immigrants originating from developing nations is likely to remain significant."

The Economic Council's report stresses that the work force originating from developing countries includes a larger proportion of professionals and technicians (25 per cent in 1974) than for all immigrants entering the labour market (18 per cent in that year).

The loss of highly skilled labour may represent an economic and social loss for the developing nations, but in the Council's opinion the extent of this loss is difficult to compute and appears to be marginal in the case of emigration to Canada. Moreover, while a larger proportion of immigrants

from the developing countries are professionals and technicians than is the case with new arrivals from the industrialized nations, still only a minority of immigrants from the Third World belong to these categories. Thus, the gains resulting from the departure of the less skilled majority group from a developing country may compensate for losses attributable to the "brain drain".

While the Economic Council observes that it is difficult if not impossible to establish a precise accounting of the economic advantages and costs of immigration from the Canadian perspective, it believes that "immigrants from the developing nations, with their higher levels of skills and training, appear to have contributed positively to the economic well-being of Canada."

The Council's own calculations, based on the concept of replacement cost, place at $2.9 billion the sum that Canada would have had to devote to training its own human capital from 1966 to 1974 had it not benefited from immigration from Third World countries.

The Council's report establishes that the economic advantages for individuals from developing countries who establish themselves in Canada may be considerable. The undiscounted net gain for the typical immigrant from the Phillipines or India is estimated at close to $400,000 (in 1974 prices).

Social adjustment appears to have been fairly successful on the whole. "Where the potential for problems of social adjustment exists -- in a crowded metropolitan area such as Toronto, for example -- imaginative policies can counter this risk."

While there are no long-term studies examining the adjustment of experience of immigrants, it can be assumed that some categories of people belonging to more "visible" ethnic minorities suffer particular problems in improving their social status. For this reason the Council recommends in its report "that the government of Canada, through the Secretary of State, finance the development of data related to ethnic adjustments in Canada and that it conduct studies with the object of suggesting ways to facilitate the adjustment of immigrants to Canadian society, as well as to encourage racial harmony."

Economic Council of Canada
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PR 78/12

DO NOT PUBLISH BEFORE
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Tuesday, June 27, 1978

A GENERAL FRAMEWORK FOR A CANADIAN VISION OF

INTERNATIONAL DEVELOPMENT TO THE YEAR 2000

OTTAWA -- "Energy conservation, particularly in the rich regions, higher official development assistance, and more capital flows and trade concessions to the resource-poor developing regions" form the basis of a scenario that provides the opportunity to increase world incomes considerably and "suggests a general framework for a Canadian vision on long-term world development."

The Economic Council of Canada devotes the second chapter and an appendix of its report on relations with the developing countries, released today, to the analysis of two scenarios simulated through the world economic model developed by the economist Wassily Leontief for the United Nations. One of these scenarios projects the future as an extension of the past, while the other defines the characteristics of a more desirable future.

The first scenario -- suggesting the future as a continuation of the past -- gives a fairly disappointing outlook for the developing regions over the next two decades in terms of income per capita. However, as these regions have a rather rapid demographic growth, they succeed in capturing a considerably higher proportion of the world's gross domestic product in the year 2000 than now. The trade deficits of the major non-communist industrial countries are substantial by the year 2000, mainly due to the growing costs of imported energy. Under these conditions, the industrialized

regions will have difficulty in stimulating the growth of resource-poor Third World countries through trade concessions or grants of aid for development. In fact, the developed countries will have to slow their economic growth to maintain their foreign debt within realistic limits, and this will further depress the growth of most of the developing countries.

By contrast, the second scenario simulates the effects of a policy of conservation and substitution of energy, and this produces a more promising outlook. The trade deficits of the developed regions are shown as shrinking considerably, but without any accompanying slowdown in their overall growth. On such a basis, the industrialized countries appear better able to stimulate the growth of the resource-poor developing countries. An increase in private transfers of capital and of public aid of less than 1 per cent of total income by the nations of North America, Western Europe, the Soviet Union, Japan and the Middle East in the year 2000, in conjunction with policies of trade liberalization, would provide the opportunity to increase by more than $300 billion the level of consumption in the resource-poor developing countries. Thus, the relative disparity in consumption per capita between the developed and developing regions would decrease.

It is the Council's opinion that this scenario, clearly beneficial to world development, is also just as favourable from a strictly Canadian point of view.

In effect, using simulations carried out by the Council on certain aspects of the model in relation to Canada, it was found that the second scenario of conservation and substitution of energy offered a healthier outlook for the Canadian economy to the year 2000. In this hypothesis, Canada would solve its balance of payments deficit problem and would even register a slight surplus in terms of prices in the year 2000. On the other hand, a scenario in which the future would be only an extension of the past reveals the possibility of major deficits exceeding 3 per cent of the gross domestic product in terms of prices in the year 2000.

The Economic Council therefore believes that, in light of the projections carried out with these two scenarios, the positive results to be drawn from the second for both the world and Canadian economies can show "attractive features for Canada, and provide a sense of direction for future policy decisions."

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PR 78/13

DO NOT PUBLISH BEFORE
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*RECOMMENDATIONS***

Recommendation n° 1

We recommend that, in order to shift Canada's industrial structure away from highly protected, labour-intensive, and standard-technology activities in which comparative advantage clearly lies with Third World countries, the federal government agree with the relevant provinces on the establishment of an industrial adjustment and redeployment fund and the creation of a comprehensive joint regional development strategy to be put into force as soon as possible. We also recommend that the total expenditures of the fund be fixed at $4 billion, spread over a period of approximately fifteen years, and that the life of the fund and related institutional machinery be terminated at the end of this period, as settled by legislation in advance.

Recommendation n° 2

We recommend that, upon the occurrence of a "release point" agreed to in advance and reflective of general domestic economic conditions, Canada's system of special quotas and other quantitative restraints on the import of manufactured goods be progressively dismantled, according to a timetable that would eliminate them in approximately ten years.

Recommendation n° 3

We recommend that, in order to encourage the adjustment of highly protected industries vulnerable to developing-country competition, Canada use the multilateral trade negotiation system to "rationalize its own tariff structure by reducing unusually high nominal tariffs to a narrower band around the average for each industry group and by reducing the variation in average protection among industry groups."

Recommendation n° 4

We recommend that, after the commencement of tariff reductions affecting "most-favoured-nation" duties, the rates of duty applicable under Canada's generalized system of preference be halved in favour of developing

countries whose national wealth and industrial capacity fall below some readily calculable index. We further recommend that the list of exceptions to Canada's generalized system of preferences - the categories of products not given preferred rates of duty - be set aside, at the same time, for this group of countries.

Recommendation n° 5

We recommend that the pre-investment programs of CIDA's Business and Industry Division - regarding both support for exploratory visits and contributions towards the cost of feasibility studies - be transferred to the Department of Industry, Trade and Commerce or to the Export Development Corporation.

Recommendation n° 6

We recommend that, in order to create the means necessary to reorganize the bilateral program and to ensure that multilateral aid is allocated on the basis of merit rather than disbursement ease, the Government of Canada continue its present policy of limiting the share of the total aid program allocated to multilateral institutions. It is recommended, however, that this policy be modified to state that multilateral nonfood aid shall not constitute more than 35 per cent of the total aid program (including food aid).

Recommendation n° 7

We recommend that, in order to increase the efficiency and effectiveness of the bilateral aid program, the total number of countries aided by Canada on a bilateral basis be gradually reduced to approximately thirty. We further recommend that the category of recipient nation known as "project country" be progressively eliminated so that all recipients of Canadian aid may enjoy the planned, longer-term relationship that is implicit in the program-country status.

Recommendation n° 8

We recommend that, in order to increase the real value of Canadian bilateral aid, Canada move progressively towards untying aid fully in respect of procurement in developing countries and that it allow procurement in other donor countries that extend the same treatment to Canada. It is recommended, however, that both of these policy initiatives be implemented only when the "release point" discussed in Chapter 4 is achieved.

Recommendation n° 9

We recommend that a system of aid-effectiveness monitoring be established for each of the thirty countries that would receive Canadian aid in the new, concentrated bilateral program. This system would produce major aid-effectiveness evaluations for each recipient country at least every five years. The evaluations would set down Canadian aid objectives, analyse and document the extent to which these objectives were being realized, and

propose actions for improvement. As well, they should be submitted on a confidential basis to the Parliamentary Committee on External Affairs and National Defence.

Recommendation n° 10

We recommend that the Government of Canada ensure sufficient growth in the volume of official development assistance, so that aid would not be allowed to fall below 0.5 per cent of gross national product throughout the period from now until the proposed adjustment and redeployment program ends.

Recommendation n° 11

We recommend that the Government of Canada, through the Secretary of State, finance the development of data, especially longer-term historical data, related to ethnic adjustments in Canada and that it conduct studies with the object of suggesting ways to facilitate the adjustment of immigrants to Canadian society, as well as to encourage racial harmony.

** *Economic Council of Canada, "For a Common Future: A Study of Canada's Relations with Developing Countries" (EC22-5/1978, $4.75 in Canada; $5.70, elsewhere).*

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 78/15

Canada's Aid to the Developing Countries

IT IS ABOVE ALL THE POLITICAL AND CULTURAL FACTORS THAT INFLUENCE GOVERNMENT DECISIONS

OTTAWA, September 12, 1978 -- The factors that govern Canada's decision to aid a developing country are primarily political and cultural. The possible economic impact on the country exerts no significant influence on the government's choice.

These are the conclusions of a study (*) conducted expressly for the Economic Council by two professors at the University of Montreal, Léonard Dudley and Claude Montmarquette. Among other things, the professors established that a nation's membership in the Commonwealth or in francophone Africa clearly increases its chances of receiving Canadian aid. The recipient's degree of poverty also enters into account while the size of its population or the sudden occurrence of disasters or political crises may also exert a certain influence.

In contrast to decisions in most other OECD nations, the developing country's potential for Canadian exports does not appear to play a role.

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* LEONARD DUDLEY AND CLAUDE MONTMARQUETTE, The Supply of Canadian Foreign Aid: Explanation and Evaluation, Economic Council of Canada, Supply and Services Canada - Catalogue No. EC22-59/1978 - Canada $4.00; other countries $4.80.

The study by Dudley and Montmarquette was conducted as part of the preparation for a report published in June (**) by the Economic Council on Canada's relations with the developing countries.

The Commonwealth and Francophone Africa

In discussing the geographic distribution of Canada's aid to developing countries, the authors stressed through a simple review of history the extent to which Canada favours Commonwealth and francophone African nations and the Commonwealth Caribbean.

These three groups of countries received in 1975, for example, a much larger proportion of Canadian bilateral aid (close to 39 per cent) than their demographic weight in the Third World as a whole (less than 14 per cent of the total population of developing countries) would warrant. This situation plays against the Latin-American countries in particular; while they represent over 15 per cent of the Third World population, they received only slightly more than 4 per cent of Canada's bilateral aid.

To evaluate Canada's motivations regarding development assistance, the authors view this aid as an exchange in which something is given and something received. The benefits that Canada may draw from its aid to the developing nations may thus be economic or political. The authors conclude that "the main gains to Canada from its aid program seem to be in the form of recognition from other donors and by the developing countries as a group: Canada earns a reputation as a responsible member of the world community."

** ECONOMIC COUNCIL OF CANADA, For A Common Future: A Study of Canada's Relations with Developing Countries (Supply and Services Canada, Ottawa, 1978).

Because of the large amount of aid involved -- on the order of $40 per Canadian in 1975, which placed the country in fifth place among OECD members after Sweden, Norway, the Netherlands, and Australia -- the authors analyze in detail the criteria governing the use of these funds. Their evaluation concentrates on two points: eligibility criteria ("Who is entitled to Canadian aid?") and allocation criteria ("How is this aid distributed among all eligible countries?").

With respect to the developing country's eligibility for Canada's bilateral aid program, the government's standards partially correspond to those of other OECD countries. Like the other donor nations, Canada particularly tends to favour the poorest of the eligible recipient countries. However, contrary to most industrialized countries, Canada attaches no significant importance to the market that these nations may represent for its own exports.

Faulty Aid Distribution by CIDA

On the other hand, the allocation of Canada's aid appears to favour nations in which the ease of spending is more obvious, at the expense of stated objectives such as the recipient's degree of poverty. This contradiction between allocation and eligibility is not present, according to the authors, in the aid program of other countries such as the United States, Sweden, Japan and West Germany.

Dudley and Montmarquette advance an explanation for this inconsistency. They first point out in their study that the interdepartmental committee set up to oversee CIDA policy deals mainly with eligibility, while the allocation of funds among eligible recipients is decided within CIDA. They then add that "since an important criteria for the promotion

of CIDA staff is apparently the ability to transfer the total funds assigned to them, they tend to have a preference for large scale projects." As these projects are difficult to generate in the poorest countries, the authors are not surprised to find that the per capita income variables should have so little influence on aid allocation.

To eliminate these inconsistencies, the authors believe that in future the Canadian government should revise present administrative procedures to ensure the consistency of eligibility and allocation decisions on development assistance funds.

The two University of Montreal economists add that since the amount of Canadian bilateral aid should increase in future, more attention should be paid to its geographic distribution and content. In order to improve the return on each dollar spent, Canada could first relax the conditions governing aid granted to governments whose objectives are clearly compatible with our own. This policy would have the advantage of considerably reducing the need for close surveillance of the administration of bilateral aid.

However, for countries whose objectives differ from Canada's, the need for Canadian surveillance within the recipient country remains. The authors believe that to avoid undue favouratism for countries in which it is easy to spend large sums, Canada should devote a share of the increase in its aid budget to the expansion of administrative resources. It would thus be in a better position than at present to promote smaller projects in very poor small nations.

N.B. - The opinions expressed in this study are those of the authors and do not necessarily reflect the opinions of the Members of the Economic Council of Canada.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 78/16

For Release
Thursday, October 12, 1978

Publication of a Council Study on:

THE CORRESPONDENCE BETWEEN THE URBAN SYSTEM AND THE ECONOMIC BASE OF CANADA'S REGIONS

OTTAWA, October 12, 1978 -- Economic development in Canada is dependent on a polarization of industrial activity by a "fabrication region" and requires that this region be centred on a dynamic development pole.

Applying this conclusion to Canada's various regions, the author of a study specially prepared for the Economic Council[1], Michel Boisvert, finds that the authors of the Higgins, Martin, Raynauld study were right in warning the Department of Regional Economic Expansion as early as 1970 not to ignore Montreal's role as a development pole, as the only place with a sufficient concentration of the quaternary activities required for the adaptation of technological innovations to the particular physical and human realities of Quebec. Mr. Boisvert, a professor at the Institute of Urbanism at the University of Montreal, admits however that Montreal does have an excessive concentration of activity. While a true

1 MICHEL BOISVERT, The Correspondence Between the Urban System and the Economic Base of Canada's Regions, Economic Council of Canada. (Supply and Services Canada, Ottawa - Catalogue No. EC22-60/1978; price: Canada $4.75 - Other Countries, $5.70).

fabrication region should encourage the growth of peri-metropolitan satellites, Montreal has failed to do so, especially when compared with Toronto.

The conclusion includes some remarks on other parts of the Country as well. The author believes, for example, that if we are to succeed in maintaining and developing the transformation industries now located in the Maritime provinces, the fragmentation characterizing this region will have to be eliminated as soon as possible and one agglomeration within the Saint John - Moncton - Halifax triangle will have to be chosen as the growth pole, if not development pole.

In the West, the author finds that Winnipeg has not succeeded in becoming the development pole. Since Alberta is now undergoing the industrialization process, we must expect Calgary or Edmonton, or both, to play a more extensive dominating role.

This study served as technical background for an Economic Council report on regional disparities[2]. The author first examines how a region's industrial structure and particularly its economic base impose certain constraints on the geographic distribution of population.

Michel Boisvert defines three types of regions:

- resource regions whose economic base relies on the primary sector, and which have a low concentration of population in urban areas (Labrador, Regina-Saskatoon, Gaspesia for example)

- transformation regions specializing in manufacturing industries related to raw materials, in which a large proportion of the economic

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2 ECONOMIC COUNCIL OF CANADA, Living Together: A Study of Regional Disparities, Supply and Services Canada, Ottawa, 1977.

activity is located in the regional metropolis (such as St. John's, Halifax, Chicoutimi, Winnipeg)

- fabrication regions (only two in Canada: Montreal and Toronto) which have more assembly industries to meet final demand, and the geographic characteristic (in addition to high population density) of emerging satellite cities in the peri-metropolitan zone around the development pole.

Having verified that this correspondence does exist between the industrial structure and the urban system in Canada's regions, the author proposes some objectives in order to improve Canada's urban systems, such as better integration of primary industries in resource regions and the emergence of growth poles in transformation regions (particularly Thetford Mines in the Quebec City region, Thunder Bay at the edge of Winnipeg's zone and Kelowna in the Vancouver region). The author also believes that the designated regions program originally proposed by the Department of Regional Economic Expansion, rather than promoting the desired nodalization in these two types of regions, would actually perpetuate the scattering of economic activity over wide areas of a region.

While a regional metropolis should ideally advance gradually from one stage to another (for example from the status of transformation region to fabrication region), the author warns that the opposite may occur, and that the industrialization of a particular region may very well decline. He states that regions such as St. John's, Chicoutimi and Sudbury are in danger of falling from the transformation stage back into the resource stage because of the net emigration observed there, and

particularly because of the decline in the relative profitability of these locations compared to the Alberta, British Columbia and Southeastern U.S. regions. Conversely, the region polarized around Calgary and Edmonton now appears to possess the necessary conditions for passage into the transformation stage, particularly because of its proximity to the Far North and the Pacific. Mr. Boisvert also does not exclude the possibility that industries in the Montreal region could shift toward Toronto and begin to grow in the Vancouver region in the near future. By analysing the past growth of Canada's various regions, the author concludes that under present conditions of rigidity and imperfect labour markets, a region that is unable to advance to the next stage of its development sequence will eventually be forced to face problems of surplus labour resulting in lower participation rates, higher inflation and lower levels of per capita income.

The professor at the Institute of Urbanism stresses therefore that the development of an appropriate urban system should form part of any regional economic development strategy. He suggests in particular that urbanization should be promoted in resource regions, industries in transformation regions should have incentives to locate in the regional metropolis and peri-metropolitan satellites should be encouraged to compete with the development pole for the establishment of fabrication industries.

To achieve these results, the author points out that the government has two main categories of instruments at its disposal: the first is aimed primarily at the urban structure and influences the location

of industries through restrictions (zoning regulations) and privileges (subsidies). The second deals more with spatial dynamics and acts on the relative accessibility of each urban centre through the organization of transportation and communications networks. In this respect, the author considers that the autoroute network, as well as the routes used by mass transit in the Montreal region, have been unable to adapt to the reality of a fabrication region that must not concentrate all of its activity in the metropolis but rather promote the development of a few satellite cities in the peri-metropolitan zone.

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NOTE: This study reflects the views of the author and not necessarily those of the Economic Council of Canada.

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PR 78/17

DO NOT PUBLISH BEFORE
11:30 a.m. (DST)
WEDNESDAY, OCTOBER 25, 1978

THE ECONOMIC COUNCIL OF CANADA CALLS FOR

MEASURES TO STIMULATE THE ECONOMY

OTTAWA -- The Economic Council of Canada estimates that the federal spending restraint program, even though it is aimed at encouraging private initiative and job creation, will have depressing effects on the economy unless accompanied by measures to stimulate consumption and spending by business.

The Council has therefore recommended today that "*the federal government introduce measures to stimulate the economy, with a view to achieving a 4.5 per cent rate of real output growth in 1979 and to gaining momentum towards sustaining growth at this pace or a little better in the next few years.*"

The Council suggested that the first stimulus might be any one of the following:

-- a cut of almost 50 per cent in the federal sales tax, effective January 1, 1979, resulting in a stimulus of about $ 2 billion;

Fifteenth Annual Review: A Time For Reason, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa; Catalogue No. EC21-1/1978; price: Canada, $4.00; elsewhere, $4.80).

-- a major cut in personal income taxes, also of about $ 2 billion, preferably on a selective basis;

-- a renewal of the federal-provincial agreements that reduced provincial sales taxes.

-- a combination of parts of the three approaches.

Whatever stimulus the federal government chose it would be in addition to tax reduction resulting from indexation of federal and most provincial personal income taxes.

The Effects of These Tax Cuts

The *Fifteenth Annual Review* of the Council released today in Ottawa, states that the economic restraint policies already announced by the various governments will likely result in growth in 1979 and 1980 remaining below 4 per cent, unemployment continuing at close to 8.5 per cent, and inflation slightly over 7 per cent.

Using simulations from the CANDIDE econometric forecasting model, the Economic Council of Canada has estimated that:

● A permanent cut in personal income tax rates, equal in the first year to $2 billion if it took effect in 1979, would considerably stimulate the economy in the coming year and would boost the real growth rate to 4.5 per cent. Private investment would be encouraged and would maintain its strength over the subsequent years. Despite the size of this tax reduction, the unemployment rate would still remain well above the 8 per cent.

● Alternatively, a cut in the federal sales tax equivalent to $2 billion, if passed on directly to consumers, could also help boost the real growth rate by half a percentage point, to 4.4 per cent. Again the unemployment rate would remain well above the 8

per cent level but the inflation rate would slow by a full percentage point to 6.1 per cent in the first year.

The Council in fact developed nine simulations encompassing different international and domestic conditions and alternative monetary and fiscal strategies. They demonstrate that as far as economic strategies go *"there are no easy ways to alleviate the difficulties."* Effective budget measures in one area may produce undesirable effects in other areas. Therefore, tough choices confront Canadians in reconciling their medium-term objectives and the relative importance they attach to economic growth, unemployment, the government deficit, the current account.

The starting point for the projections and the tax cut recommendation was what the Council called a *"mixed austerity"* solution. This assumed that the federal government would adhere to its already announced policies and would keep its expenditure growth 1 per cent below of nominal Gross National Expenditures, whereas the provinces would maintain neutral or moderately expansionist policies. The result was as described, with the annual real growth rate over the medium term exceeding 4 per cent only in 1981, and unemployment rates persisting at their present high levels.

Following what it described as the *"new economics"*, the Council tested how much private spending would be necessary to offset the federal austerity and get the economy up to 5 per cent real growth. Describing this as *"full steam private spending"*, the Council concludes that given the investment knowledge at hand and the present consumer spending and savings patterns the likelihood of such an outcome is highly improbable. It would require a burst of business and consumer confidence and a sustained increase in private spending *"unprecedented in the last 50 years in Canada."* The already beleaguered current account balance-of-payments deficit would soar, necessitating massive foreign borrowings.

<u>After 1981</u>

While the Council does not believe that the restraints announced by the federal government will, by themselves, produce a spectacular surge in private spending, it does foresee some strengthening of private investment clustered particularly in 1980 and 1981 as the Arctic gas pipeline and other energy-related projects are developed. Thereafter, the Council's projections show a pronounced slowing of private investment and real growth.

As it was in its earlier study *Towards More Stable Growth in Construction*, the Council's view is that in some areas of Canada too many public and private investment projects could occur concurrently and a cycle of intensified and then too little spending take place. This could generate inflationary pressures in the first case, and unnecessarily high unemployment in the second.

"Initially, therefore, there is the need to reduce the uncertainties and restore business confidence among private investors. Thereafter, it is a matter of timing the public expenditures so as to ensure steady growth." The Council's second recommendation this year is *"that the federal government, in co-operation with the provinces and with the business and financial community, make a renewed effort to plan and develop a medium-term strategy of phased spending on major capital works designed to contribute to the efficient operation of Canada's industrial structures."*

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For more information: Information Section
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Selected Indicators Associated with Alternative Policy Scenarios, 1979-83

Real gross national expenditure	1979	1980	1981	1982	1983
Mixed austerity	3.9	3.5	4.2	2.3	2.5
Full-steam private spending	4.5	4.2	5.0	3.2	3.3
Income tax cut	4.5	3.7	4.5	2.6	2.6
Federal sales tax cut	4.4	3.7	4.5	2.4	2.4
Combined tax cuts	5.1	3.8	4.8	2.8	2.5
Gross national expenditure deflator					
Mixed austerity	7.2	7.5	6.7	7.1	6.4
Full-steam private spending	7.2	7.6	6.8	7.4	6.8
Income tax cut	7.0	7.6	6.8	7.2	6.6
Federal sales tax cut	6.1	7.2	6.5	7.0	6.4
Combined tax cuts	5.9	7.3	6.5	7.1	6.6
Private non residential investment					
Mixed austerity	4.4	8.1	6.8	1.3	1.5
Full-steam private spending	9.2	12.8	10.6	5.2	5.0
Income tax cut	4.9	8.5	7.1	1.6	1.6
Federal sales tax cut	5.1	8.8	7.5	1.5	1.2
Combined tax cuts	5.6	9.2	7.7	1.7	1.3
Unemployment rate					
Mixed austerity	8.5	8.5	8.3	8.6	9.0
Full-steam private spending	8.2	7.9	7.3	7.3	7.3
Income tax cut	8.3	8.2	7.8	8.0	8.3
Federal sales tax cut	8.4	8.3	7.9	8.2	8.5
Combined tax cuts	8.2	7.9	7.4	7.5	7.9

Source: Economic Council of Canada, 1978.

Economic Council of Canada / Conseil économique du Canada

news release/communiqué

EMBARGO...EMBARGO...EMBARGO...EMBARGO...EMBARGO...EMBARGO...EMBARGO

PR 78/18

DO NOT PUBLISH BEFORE
11:30 a.m. (DST)
WEDNESDAY, OCTOBER 25, 1978

- *HARSH REALITIES* -

OTTAWA -- The outlook for the immediate future appears uncertain and Canada's economic performance will depend in large part on the skill with which policy-makers can manage the stabilization levers and financial relations with foreign countries.

In its *Fifteenth Annual Review*, the Economic Council of Canada examines the economy's strong points and shortcomings. On the one hand it notes that the international and domestic competitiveness of a range of Canadian goods is stronger as a result of the depreciated Canadian dollar and the slowing of increases in production costs in Canada; productivity growth in the manufacturing sector continues to be relatively satisfactory; more Canadian goods than ever are being processed before being sold abroad; and idle manufacturing capacity has diminished. Despite the weakening of the dollar and regular increases in energy prices, underlying domestic cost pressures have decelerated.

On the other hand, although roughly half a million new jobs have been created since the beginning of 1977, labour force growth has outstripped the increase in employment, and the unemployment rate has drifted upward. Investors continue to be cautious, as they are in most of

the OECD countries. Householders are saving substantially more of their income and thus spending proportionately less than they were some years ago, taking advantage of tax breaks and as a hedge against inflation. The current account deficit remains too large and, despite government expenditure restraint, the prospects are for sizable, though diminishing, federal budgetary deficits for at least a few more years. Finally, account must be taken of the concern over the whole issue of national unity.

<u>The Bounds of Economic Management</u>

The Council briefly reviews the role and performance of countercyclical fiscal policy in Canada. It notes that with the indexing of the personal income tax and federal-provincial transfer arrangements, the amount of automatic fiscal adjustment has increased, reducing somewhat the scope for discretionary federal action. Moreover, the growing size of provincial and municipal expenditures, many of which are obligatory and recurrent, also sets serious limits on the government fiscal stabilizing initiatives.

Observing that despite some budgetary stimuli during 1975-78 the Canadian economy did not perform up to the federal expectations, the Council takes on the question of whether the present federal deficit is so severe as to rule out additional fiscal stimuli. Comparing the Canadian position with that of other OECD countries it concludes that *"Canada's overall fiscal performance has not been too unfavourable. Indeed the figures suggest that in combination with expected improvements in the federal budgetary position as a result of the modest growth anticipated next year, there is room for new fiscal stimuli should the government wish to use them."*

In the area of monetary and exchange rate policy, it observes that the values of both the Canadian and the U.S. dollar have fallen below their intrinsic worth. But it believes that *"there are reasons for believing that a further fall in the dollar will only have a transitory effect on Canada's inflation rate and that the exchange value will go back up on its own account."* The Council observes that with *"this year's rise of more than 2 percentage points in interest rates and the recently announced reduction in the deficit, the fiscal and monetary policies adopted by the federal government will most certainly restrain the Canadian economy next year."* The Council cautions that *"while contained inflation and a stronger dollar are no doubt desirable, there have been optimistic signs -- higher capacity utilization, increased profits, and private investment -- that the Canadian economy is beginning to show some strength, and it will require a fine balancing act to avoid a monetary policy so tight as to abort the long-awaited recovery."*

The Council has doubts about the economy's ability to reach the federal government's real medium-term growth target of 5 per cent for 1978 and 1979, established at the federal-provincial First Ministers' Conference last winter. *"Our perception is that unless there are unforeseen and fortuitous changes in world markets or domestic expenditure patterns, the likelihood of achieving that magnitude of growth in 1978 or 1979 is very slim indeed."* Given present views of external and domestic economic prospects, and in the absence of new federal fiscal stimuli a more probable outcome is that real growth in both years will range around 3½ or 4 per cent.

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PR 78/19

DO NOT PUBLISH BEFORE
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WEDNESDAY, OCTOBER 25, 1978

Social Security in Canada

A CONSIDERABLE FINANCIAL EFFORT FOR RATHER MODEST REDISTRIBUTIVE EFFORTS

OTTAWA -- The share of Gross National Expenditure earmarked for various social security programs registered remarkable growth in the latter half of the 1960s, but this financial effort has been found to have only minor effects on the redistribution of income in the country.

The Economic Council's *Fifteenth Annual Review* devotes a full chapter (7) to the various health, education and welfare programs, and part of Chapter 6 to the relationship between unemployment and financial hardship.

The Council points out that since most of these programs were specifically designed to meet the needs of precise groups -- the elderly, the young, the ill, the unemployed, women with dependent children -- they are not aimed a priori at particular levels of income even though many persons belonging to each of the groups covered by the social security programs may be poor.

As the programs have grown and tended to become accessible to all, they inevitably cover a growing number of middle- or high-income families. The Council examines the benefits flowing to and the costs paid by different income groups in Canada and concludes that the redistribution of income resulting from all social security programs taken together is only modestly progressive with the net benefits flowing to the middle class almost as much as the very poor.

The most rapid growth of the all-government share of Gross National Expenditure occurred in the latter half of the 1960s when federal and provincial governments were implementing a full range of measures designed to raise the skills of young Canadians and to protect all Canadians from extreme financial hardship due to old age, illness or loss of employment. Over the four years 1966-70, nearly half of the increase in GNE was attributable to public expenditure, much of which was provincial in the fields of health and education. Since then the main increases have been in unemployment insurance, family allowances and related social schemes.

Appraising Various Social Security Programs

The Council found that *the overlap between the individuals and families who experience unemployment and those who are poor is relatively weak.* This is because many of the poor are not in the labour force because of age, disability or the care of children and therefore not eligible for UI benefits. The majority of the unemployed are members of households in which others are working. Under these conditions it comes as no surprise that a substantial proportion of unemployment insurance benefits flow to families in the middle- and high-income brackets.

While acknowledging that there is further scope for reducing health care costs, the Council also praised governments for the *admirable job* of developing efficient and universal health and hospital care plans. The hospital insurance plan financed by the federal and provincial governments and the health insurance plans administered by the provinces are found by the Council to *combine universal care coverage with equitable income redistribution.*

The Council emphasized the importance of health care to low-income families and supported provincial initiatives to reduce or eliminate the premiums or to provide rebates to older persons and those with limited income. It also expressed disappointment at the federal government's decision to eliminate completely Statistics Canada's annual health survey, suggesting that alternative arrangements to collect the information, at least on a partial basis, could have been made. And it urged a greater use of multidisciplinary clinics on an outpatient basis, thereby reducing the costs of hospitalization where it is not needed.

In the area of education the Council observed that the growth in university education enrolment has levelled off. Much of the recent growth in post-secondary education has been in occupationally oriented courses, with the rate of enrolment expansion in community colleges and related institutions outpacing that in universities. On the critical issue of student-teacher ratios at the elementary and secondary levels, the Council was dubious about the need for further reductions in class sizes, stating: *Thus we urge that in dealing with funding arrangements, governments assess the question of class size in the light of its relationship to the improvement in the cognitive and affective skill development of students. At the same time, however,*

we applaud the efforts of educational institutes -- through more flexible teaching arrangements, television, and other media -- to bring educational opportunities and diversified courses to a broader cross-section of Canadians.

The Council noted that some observers have questioned the necessity for a flat old-age security payment to all persons age 65 and over, regardless of their other sources of income. It raised the possibility of augmenting the Guaranteed Income Supplement to pensioners who need it and reducing the flat Old Age Security payment, or eliminating the special income tax exemption for persons over age 65.

The Council suggested that the combination of universal youth and family allowances and tax exemptions cancelled much of the redistributive potential and even had regressive effects. Nonetheless, it considered the federal initiatives to be in the right direction, though there may be severe administrative problems in channeling tax refunds to eligible mothers.

The Council concluded that there should be no reduction in the Canada Assistance Plan which provides a variety of social welfare to those in need. It noted too the inter-relationship between unemployment insurance and social assistance, observing that the 1971 enrichment of the Unemployment Insurance Act had been followed by a reduction annually of between 100 and 230 thousand persons getting benefits under CAP.

Difficulty in Achieving Substantial Savings

Despite an expected diminution of growth in public expenditure in relation to Gross National Expenditure, the Economic Council does not foresee governments achieving substantial savings on the

foregoing social programs in future. While demographic changes may lead to a relative decrease of expenditure in the education and family allowance sectors, it will also produce expansion in the health and old-age security programs. Some savings could be achieved by *moving away from universal to more selective programs, but selectivity has its own costs in terms of an increased bureaucracy, regulations, and enforcement procedures.* The Council also was aware of the fact that doing away with the principle of universality that now governs some of the social programs would be disapproved by many Canadians. *For programs that involve contributions, participants build up a strong sense of entitlement, quite apart from the level of their income.* Moreover, as emphasized by one Council member, some people believe that a better way to achieve more equitable distribution of income in Canada is not to sacrifice the principle of universality but rather to use the major income redistribution instrument, the progressive personal income tax system.

The Council concluded that *Canadians are most likely to focus their concern about fairness on the circumstances in which incomes are generated and distributed rather than on the differences in financial income alone.*

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PR 78/20

DO NOT PUBLISH BEFORE
11:30 a.m. (DST)
WEDNESDAY, OCTOBER 25, 1978

The Goods-Producing and Service Sectors

NO SERIOUS STRUCTURAL BREAKDOWN HAS OCCURRED

OTTAWA -- The Economic Council of Canada, in its *Fifteenth Annual Review*, concludes that *"apart from the higher relative costs associated with the rise in energy prices in Canada, our analysis does not show that there has been any discernible serious structural breakdown in the competitive performance of most of Canada's industrial and service enterprises."*

This year, the Council has devoted three chapters to the growth of the goods-producing and service sectors. The Council finds that not all the primary industries are highly competitive, that manufacturers of highly labour-intensive Canadian products will face a considerable challenge, and that the service sector will no longer, as in the past, continue to absorb all growth in the labour force. But the *Review* concludes that there has been no basic transformation that would seriously weaken Canada's overall industrial competitiveness at home and abroad; *"... despite the genuine threat to Canadian manufacturers of labour-intensive goods, which the opening-up of trade to developing countries entails, there could be more than offsetting export opportunities*

for the foodstuffs and raw materials (primary or processed) in which Canada now enjoys a natural advantage. There will, however, have to be structural adjustments. Not all of Canada's primary industries are well placed competitively, and not all manufacturing will be affected."

The Primary Industries

The value of Canada's primary production and exports has grown rapidly during the 1970s, but the gains in the volume of trade have been far less impressive. Rising capital costs of resource development, mounting energy and pollution control costs and increased international competition are contributing factors. Moreover, there is evidence of a slowing of productivity growth within major sectors of Canada's primary industries. The situation varies, however, from industry to industry and region to region.

Looking ahead, in the field of agriculture, strong growth can be expected for grains, oilseeds, and red meats, and to a lesser extent for poultry and eggs. In fishing, the extension of Canada's fishery-management jurisdiction to the 200 nautical mile limit, along with quota allocations to participating fleets, gives promise to the industry. Japanese and European markets are becoming an increasingly important source of export earnings. Canadian exporters of forest products are residual suppliers to the United States market, and the industry is highly subject to cyclical swings in residential construction in that country. Currently, the industry is prospering, but longer-term forecasts are for slower growth in the 1980s. Most B.C. lumber enterprises are highly competitive. On the other hand, eastern producers of kraft pulp and newsprint are at a serious cost disadvantage with southern U.S. mills and considerable modernization will be necessary if Canadian producers of highly processed

paper and wood products are to gain wider entry into foreign markets.

The mining sector has been depressed. Profit levels are low, demand prospects in the 1980s weaker than in the 1950s and 1960s, and the industry is spending only limited funds on finding new reserve ore bodies. The energy sector faces considerable financing requirements that the government has already estimated at $200 billion in today's dollars over the next fifteen years.

The Council observes that in the decade ahead "... *massive investments are required in the energy, the forest products and, to a lesser degree, the mineral sectors. Since most of this investment will be made by the private sector, there must be ample assurance that these efforts will not go unrewarded. This, in turn, presupposes an economic environment in which the investing enterprises will enjoy satisfactory cash flow positions and have access to appropriate institutional funding over the long term.*"

The Manufacturing Sector

A brief review of performance in the manufacturing sector in recent years has led the Council to conclude that "*much of the slowdown in manufacturing growth and the adverse movement in the trade balance can be explained by cyclical factors.*"

The Council recognizes nonetheless that some industries within the manufacturing sector are beset by a number of longer-term and more fundamental problems. It is not clear, in the Council's opinion, whether these difficulties have become more pronounced in the 1970s, but in the more competitive trading environment of the 1980s there could be serious problems for some industries, particularly those characterized by a high degree of labour intensity.

The Council found that, cyclical factors apart, overall productivity growth rates in manufacturing are still roughly equivalent to the average growth rates achieved in the 1960s and the expansion years to 1974. However, in the early seventies the annual real output and employment grew by 8 per cent and 3.2 per cent respectively, compared to an annual growth of 4 per cent in real output and an actual decline in employment rates since 1975.

Most of the long-term productivity growth in manufacturing is accounted for by such changes as technological innovation, increases in plant size, changes in the quality of the work force and improvements in the organization of production. The higher costs of most firms producing only for the Canadian market vis-à-vis U.S. firms result not so much from the smaller scale of production as from a lack of specialization and too diversified product lines.

As it did in its 1977 Annual Review the Council cites the problems arising from large portfolio borrowings at high interest rates and the net outflow of equity capital from Canada. While this has resulted in a modest decline in the proportion of plant and equipment owned by nonresidents, it has also contributed to Canada's growing deficit on current account debt services. Moreover, the Council cites studies that show foreign-owned firms enjoying higher productivity, greater market power and higher profits than Canadian-owned firms in the same industry. It concludes that "*given the recent investment pause in Canada, foreign-owned firms have been content to finance principally by means of their retained earnings, whereas the net outflow of Canadian equity funds probably is an indication of the growing maturity of domestic corporations, which are increasingly exploiting their market advantages and know-how*

through subsidiary enterprises in the United States and elsewhere."

Service Sector

While almost all of employment growth in Canada has been in service sector jobs, the demand for services overall has not grown much faster than that for goods. This is because the price of services has risen much more rapidly than for durable and most nondurable goods. However, the service and goods sectors are closely inter-related and future technological developments in the service sector are expected to help increase productivity. And the period of rapid growth in public sector employment is now drawing to a close.

The chapter in the *Fifteenth Annual Review* dealing with services describes the electronic and organizational innovations that, while not yet significantly displacing clerical and other semi-skilled workers, have altered the type of work they are performing. Moreover, with rising service costs, more and more self-service and do-it yourself activities are underway. The Council concludes that with rising incomes Canadians will seek more customized services to serve their specialized tastes; but as price conscious buyers they will also seek competitive and efficient sources of supply. Hence as workers *"Canadians employed in service activities will continue to be faced with uncertainty about the permanency of their work, the wages they can expect, and the career prospects that lie ahead."*

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PR 78/21

DO NOT PUBLISH BEFORE
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WEDNESDAY, OCTOBER 25, 1978

HIGHLIGHTS

of the

Fifteenth Annual Review: *A Time for Reason*

In this *Fifteenth Annual Review**, as in the past, the Economic Council examines Canada's medium-term prospects, and comments on current measures to improve the functioning of the economy.

1. An Overview of Recent Economic Developments

Net external demand was by far the outstanding contributor to Canada's growth in 1977. This demand must, however, be placed in the context of the relatively weak recovery in Europe, Japan and North America, widening external payment imbalances in several countries, erratic fluctuations in currency exchange markets, and the risk of stronger protectionist reactions.

Domestic demand, on the other hand, continued to reflect consumer uncertainty, restraint in government spending, business reluctance to invest in the face of economic and perhaps constitutional uncertainties, and low capacity-utilization rates. It also reflected

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* *Fifteenth Annual Review: A Time For Reason*, Economic Council of Canada. (Printing and Publishing, Supply and Services Canada, Ottawa; Catalogue No. EC21-1/1978; price $4.00 in Canada; elsewhere, $4.80).

lower levels of residential construction, resulting from large housing inventories. The overall growth rate improved during the first half of 1978, but there was some deterioration on the unemployment and inflation fronts.

2. Trade and Foreign Investment

While foreign trade was a major factor in the strong growth in real income and expenditures registered in the early 1970's, Canada's favourable terms of trade began to deteriorate, offsetting some of the fortuitous income gains of previous years, with the end of the boom in commodity prices and the rise in oil prices. The depreciation of the Canadian dollar has given a positive boost to Canada's trade balance in 1977 and 1978.

Since 1973, capital outflows associated with the purchase of equities abroad or with the repatriation of foreign-owned assets in Canada have consistently exceeded the inflows of direct investment in Canada. At the same time, foreign purchases of new securities issued by provinces, municipalities and corporations reached unusually high levels. This recent change in the structure of Canada's foreign debt will definitely have its consequences: unlike dividends, interest on portfolio debt must be paid year in and year out until maturity. Moreover, since 1973, Canada has been a net exporter of direct equity capital, while outflows of direct investment capital from Canada exceeded inflows by about $1.5 billion.

Finally, the multilateral trade negotiations now taking place in Geneva will open new markets and encourage competition, providing opportunities and new problems for Canadian industries and consumers. The genuine threat that these negotiations represent to some Canadian manufacturers of labour-intensive goods should be

more than offset by increased export opportunities for the foodstuffs, raw materials and manufactured goods in which Canada has a competitive advantage. As will be seen in the next three chapters on the production of goods and services, not all of Canada's primary industries are well placed competitively and not all manufacturing will be affected.

3. The Primary Industries

Over the years, Canada's primary-based industries have shaped much of this nation's development. Representing 60 per cent of all Canadian exports, the resource-based industries provide considerable employment and income for Canadians in many regions and reaches of the country that would otherwise remain barren.

In the decade ahead, some resource industries will grow rapidly while others will lose momentum. In the forest products sector, for example, producers of pulp and paper in eastern Canada may experience some difficulties, whereas the outlook appears more favourable for most B.C. lumber enterprises which seem to be highly competitive.

In the mining sector, profit levels are currently at low ebb, and recent indications are that Canadian companies are not spending sufficient funds to ensure that new reserves and additional production capabilities will sustain the desired future production levels. The strong continuous growth in metal reserves of the 1960's has ceased since 1974.

Finally, the energy sector faces considerable financing requirements that the government has already estimated at 200 billion in today's dollars over the next fifteen years which will require arrangements with lending institutions to ensure coherent financing.

Since the resource endowment of Canada's main regions varies greatly, the foreseeable changes in world demand could produce a change in the regional economic growth patterns.

4. The Manufacturing Sector in Canada

Canada's manufacturing sector -- and most particularly the more labour-intensive industries -- faces a major challenge in adjusting to pressures of increasing international competition. In the years to come, government efforts to encourage adjustment will be important. Industrial adjustment and incentives programs will continue to require a significant share of government resources.

However, government grants and subsidies, procurement policies, export assistance, and programs to promote research and to encourage regional development involve substantial public expenditures. In the present period of government restraint, it is most appropriate that these programs be subjected to rigorous and systematic analysis of their costs and the benefits they produce.

The Department of Industry, Trade and Commerce, in conjunction with private industry, conducted an analysis of the needs of each sector. The reports by these groups already reveal the need for a sorting by governments since their recommendations are just as likely to conflict as to agree.

It must also be recognized that in most cases where firms or industries are encountering competitive difficulties, the market is successfully carrying out its function. The application of industrial policies should not impede the adjustments dictated by these market forces. There are, of course, perceptible shortcomings in this system and no government can remain aloof to the problems raised by major industrial dislocations or severe regional disparities.

5. The Service Industries

Future technological developments in the service as well as the goods-producing industries are expected to lead to a cumulative rise in output per man and per man-hour. The rapid expansion in public services is drawing to a close and the time is already in sight when the commercial service sector will no longer absorb all growth in the labour force.

With increases in the relative price of services outstripping those of most new electronic equipment, the automation of offices and business procedures may be close at hand. As consumers of services, Canadians will seek competitive and efficient sources of supply. This may signify that Canadians employed in service activities will continue to be faced with uncertainty about the permanency of their work, the wages they can expect and the career prospects that lie ahead.

6. Perspectives on the Unemployment Rate

The aggregate unemployment rate serves less well than in the past all the many roles to which it has been traditionally assigned -- as an indicator of cyclical phase, tightness, inflationary potential, and hardship. For example, in comparing the August 1978 unemployment rate of 8.5 per cent with the figures that prevailed in the late 1960's, people often lose sight of the fact that the Canadian economy is employing proportionately more persons of working age now than in the four years from 1966 to 1969, when the unemployment rate was well below 5 per cent.

But it is primarily in the relationship between the unemployment rate and the level of hardship borne by Canadians that the imperfections of this indicator become apparent. The overlap between the individuals and families who experience unemployment and those who are poor is relatively weak.

7. Governments and the Search for Equity

For many reasons, federal government expenditures of health, education and social welfare programs represent a growing slice of GNE. There appears to be relatively little room for expenditure savings other than those that may occur as the result of changes in the composition of the population -- in the areas of education and family allowances, for example.

Limited savings might be found by moving away from universal to more selective programs, but this has its own costs in terms of an increased bureaucracy, regulations and enforcement procedures as well as political divisiveness. Very modest savings might be achieved by eliminating special tax exemptions that favour the well-to-do.

8. The Bounds of Economic Management

The outlook for the next five years, as we perceive it, is for relatively moderate growth (generally well below 4 per cent), persistent inflation over 6.5 or 7 per cent, unemployment rates of 8 to 9 per cent and large current account deficits.

The choice of fiscal and monetary policies will not be easy, since no single objective can be achieved without cost. A vigorous pursuit of growth and high employment would require measures that could aggravate inflation and worsen the current account deficit. A further tightening of monetary policy to combat inflation would jeopardize growth and increase unemployment. A reduction in the balance of payments deficit could be achieved by allowing the exchange rate to drop further, but at the risk of aggravating inflation. A tight monetary policy would encourage capital inflows but discourage investment and slow domestic growth.

9. Conclusions and Recommendations

In view of the sluggish prospects ahead, the Economic Council of Canada therefore recommends that *the federal government introduce measures to stimulate the economy, with a view to achieving a 4.5 per cent rate of real output growth in 1979 and to gaining momentum towards sustaining growth at this pace or a little better in the next five years.*

This recommendation is based on the injection of roughly \$2 billion of stimulants into the economy, over and above the revenue loss to indexation of federal and most provincial personal income taxes. These stimulants could take the form of a marked reduction of the federal sales tax or major reductions in the personal income tax, or finally a renewal of the federal-provincial arrangements for reducing the provincial sales tax.

The Economic Council foresees some strengthening of private investment, in 1980 and 1981, as the energy-related projects are developed. And thereafter, the Council's projections show a pronounced slowing of private investment and real growth. Therefore, the Council recommends that *the federal government, in co-operation with the provinces and with the business and financial community, make a renewed effort to plan and develop a medium-term strategy of phased spending on major capital works designed to contribute to the efficient operation of Canada's industrial structure.*

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 79/03

FOR IMMEDIATE RELEASE
June 15, 1979

OTTAWA -- Regional income disparities in Canada may be partly the result of the speed with which different areas of the country adopt new technologies. A study released by the Economic Council today says that slowness to respond to innovation may be as important in explaining the low productivity of a region as the structure of its industry or the work experience of its labour force.

The study, "The Interregional Diffusion of Innovations in Canada", prepared for the Council by economists Fernand Martin, Neil Swan, Irene Banks, Gordon Barker, and Richard Beaudry, looked at eight technological innovations in five industries, and marks the first time an attempt has been made to measure differences between regions in this way. The findings of the study are the personal responsibility of the authors and have not been endorsed by members of the Economic Council.

The innovations chosen were basic oxygen process furnaces and electric furnaces in the primary steel industry; metal plates and roof trusses in the construction industry; containerization in shipping; shopping centres in retail commerce; special presses in newsprint production; and computer technology common to all industries. Four of these innovations were applicable throughout Canada.

Despite the widely-held belief that there is no difference in the level of technology in use in different regions of the country, the researchers found that differences in geography may influence the speed with which a new innovation is adopted. Distance, the size of cities, management attitudes, or the level of organization in the government and private sectors of a region will also affect the spread of innovations.

Firms in the Atlantic region were, on average, about seven or eight years behind those in the rest of Canada in adopting the innovations studied. Productivity of Atlantic industries lags behind industries in the rest of Canada as a result. Firms in Ontario, on the other hand, are generally ahead of the rest of Canadian industry in adopting new technology and they also lead firms in other regions in productivity.

Not all of the innovations studied showed regional characteristics in the pattern and speed of adoption, but the researchers say that where there are regional differences it may be possible to develop regional policies to help correct the situation.

The authors say that while their sample of innovations is "neither strictly random nor strictly representative" they hope that their conclusions will "tempt others to explore further this potentially fruitful area of research into problems of regional development."

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 79/04

FOR IMMEDIATE RELEASE
December 20, 1979

OTTAWA -- The recommendation of the members of the Economic Council of Canada that Dr. David W. Slater be appointed Vice-Chairman of the Council, effective January 1, 1980, has been approved by the Government, it was announced today.

Dr. Slater will assume the Acting-Chairmanship of the Council until the Government appoints a Chairman to replace Dr. Sylvia Ostry, who resigned effective December 31 to take up a new post as Head, Department of Economics and Statistics, Organization for Economic Co-Operation and Development (OECD), in Paris.

A Director of the Council since March 1978, Dr. Slater was formerly General Director of the Fiscal Policy and Economic Analysis of the Federal Department of Finance (1973-78), President of York University in Toronto (1970-73), Dean of the School of Graduate Studies and Research, Queen's University in Kingston (1968-70) and a teacher at Queen's University (1946-48 and 1952-70). Dr. Slater is a native of Winnipeg. He served in the Canadian Army overseas (1942-45). He acquired degrees in commerce and economics from the University of Manitoba and Queen's University respectively, before earning his doctorate from the University of Chicago. He is married to the former Lillian Bell of Sarnia, Ontario. They have four children.

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Economic Council of Canada
Conseil économique du Canada

The Institute for Research on Public Policy
l'Institut de Recherches Politiques

news release/communiqué

PR 80/01

For Release
Monday, August 18, 1980

MINIMUM WAGES AND EMPLOYMENT

Minimum wage laws may be damaging the job prospects of low-wage workers, especially if they are teenagers. Supporters of a government-established minimum wage say that it meets important social goals. But many economists have argued that the minimum wage cuts employment for people at the low end of pay scales because it becomes too costly for employers to hire these low-skilled workers.

A study published jointly by the Economic Council of Canada and the Institute for Research on Public Policy today adds more evidence on the side of the economists. The report, by Edwin West and Michael McKee, of Carleton University, says that minimum wages do reduce employment -- at least for young workers -- and they probably don't do much to reduce poverty either.

WEST, E. G. and McKEE, M., Minimum Wages: The New Issues in Theory, Evidence, Policy and Politics. A study prepared for the Economic Council of Canada, and the Institute for Research on Public Policy. Ottawa: Supply and Services Canada -- Cat. No. EC22-81/1980E. Price in Canada: $12.25; Other Countries: $14.70.

Using econometric models, an approach they say is preferable to surveys, West and McKee come to the conclusion that there is no scientific evidence to support continued government intervention in setting minimum wages. Because minimum wages reduce employment, say the authors, the government has to resort more often to job creation programs in an attempt to mop up the damaging effects of the previous policy. But these are only a "second-best" solution. It would be less costly to go to the root of the question and deal with the policy that caused the problem in the first place, they suggest.

West and McKee say they suspect the situation in Canada is very like that in the United States. Researchers there found that workers effectively covered by minimum wage laws tend to be unattached or dependent. There is not much connection between hourly wages and family income for workers earning low wages.

In any case, the problem of poverty is made worse if workers lose their jobs when minimum wages are increased. Negative income taxes or wage subsidies may be more effective ways of redistributing income than a minimum wage policy, says the report.

The findings of the study are the personal responsibility of the authors and, as such, have not been endorsed by members of the Economic Council of Canada or the Board of Directors of the Institute for Research on Public Policy.

For further information, call:

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Economic Council of Canada (613) 993-3591

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 80/02

For immediate release
August 29, 1980

POPULATION AND LABOUR FORCE PROJECTIONS

The Economic Council today released projections of the population and labour force in Canada to the year 2051. The forecasts, originally prepared for use in the Council's program of research on the retirement income system in Canada, form part of a study by Frank Denton, Christine Feaver and Byron Spencer of McMaster University, and cover a 75 year period using the 1976 population census as a base.

The study reviews historical changes in fertility, mortality and migration rates and examines the effects of these changes on population size, rates of growth and age distributions. Labour force growth, participation rates and the age-sex composition of the workforce also come under scrutiny.

In a comment on the difficulty of forecasting so far into the future, the authors say that "no one knows what fertility, mortality and migration rates will do over the next 25 years, let alone the full 75 years to which the projections relate." They have therefore made projections to cover a wide range of

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DENTON, F. T., FEAVER, C. H. and SPENCER, B.G., The Future Population and Labour Force of Canada: Projections to the Year 2051. A study prepared for the Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-75/1980. Price in Canada: $3.50; Other Countries: $4.20.

alternative assumptions and the results show the range of population outcomes these imply. This approach is more useful for research purposes, they say, than trying to predict what will actually occur.

The authors consider the possibility of a new "baby boom" which might occur if fertility rates were to start rising again, and they have projections which take account of a breakthrough in medical science such as the discovery of a cure for cancer which might lead to a sharp reduction in mortality rates. There is also a comparison with recent Statistics Canada population projections.

The findings of the study are the personal responsibility of the authors and, as such, have not been endorsed by members of the Economic Council of Canada.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 80/03

For immediate release
August 29, 1980

THE FUTURE OF PUBLIC PENSION PLANS

Canada's public pension plans are coming under scrutiny as the proportion of older people in the population increases. A study released today by the Economic Council says that "whatever the course of future demographic change, some combination of changes in the benefit provisions and the financing arrangements appear to be inevitable."

The study, by Frank Denton, Leslie Robb and Byron Spencer of McMaster University, was prepared for use in the Council's program of research on the retirement income system in Canada. Labour force participation rates, changes in mortality rates or big swings in the level of immigration do not have much effect on the choice of funding arrangements for public pensions, say the authors. But the cost of lowering the retirement age by five years is quite considerable, although it falls far short of the cost of doubling the benefit proportion.

Denton, F. T., ROBB, A. L., and SPENCER, B. G., The Future of Financing of the Canada and Quebec Pension Plans: Some Alternative Possibilities. A study prepared for the Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-76/1980. Price in Canada: $3.50; Other Countries: $4.20.

The study looks at five possible ways of financing the Canada and Quebec Pension Plans. Two pay-as-you-go schemes, (where the contributions of people in the labour force would pay for pensions for those who are retired), would involve increasing the contribution rate from the present 3.6% of pensionable earnings to over 9% by the year 2030. The other three possibilities would mean an early switch from the present contribution rate to a flat rate contribution equivalent to just under 7%.

The authors do not believe that the operations of the Canada and Quebec Pension plans are approaching a crisis situation. Keeping contribution rates at the present level will mean benefits will exceed contributions within the next ten years, pushing the fund into the red around the turn of the century. But it would not take much in terms of legislation to avoid these problems, say the authors. Switching to a pay-as-you-go system over the next ten or fifteen years, for example, would avoid having the fund go negative "without the provinces even repaying the borrowings from the fund."

The finding of the study are the personal responsibility of the authors and, as such, have not been endorsed by members of the Economic Council of Canada.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 80/04

For immediate release
September 22, 1980

SERIOUS SHORTAGE OF SKILLED WORKERS

The shortage of skilled workers has become a serious problem for Canadian industry and the situation is not likely to improve over the next few years. A study released today by the Economic Council of Canada says that the problem is particularly bad in western Canada. In Alberta alone, more than three-quarters of employers report hiring difficulties over the past few years and 68 per cent expect to face the same kind of problems between now and 1985.

The study, by Council researcher Gordon Betcherman, is based on a survey of 1,400 employers right across Canada. The most critical problems, says Betcherman, are with specific advanced blue-collar skills associated with product fabricating and repair and machining operations. Serious shortages also exist for engineers and certain related technologists.

Some of the more hard-to-find skills are in demand right across the country so employers have not generally been able to solve the problem by moving workers in from some other region, Betcherman found.

BETCHERMAN, G., Skills and Shortages: A Summary Guide to the Findings of the Human Resources Survey. Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-87/1980. Price in Canada: $2.00; Other Countries: $2.40.

European countries, which in the past have been a major source of skilled workers for Canadian industry, have put great emphasis on apprenticeship training schemes, but this method of skill-training has not proved too popular in Canada. Only 15 per cent of the total training effort of employers in the survey was devoted to apprenticeships.

Only one out of every ten employers looks outside Canada for skilled workers today. Most companies said they solve their skill-shortage problems by starting vocational training programs, but in the meantime, many ask the workers that they have to work overtime.

"At the present time," says the study, "the training effort in industry is not directed toward the acquisition of high-level skills. While the majority of establishments report some vocational training, only a very small part of this activity is aimed at meeting our most critical shortages through comprehensive, long-term development programs."

The findings of the study are the personal responsibility of author and, as such, have not been endorsed by members of the Economic Council of Canada.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 80/05

For immediate release
September 29, 1980

DOES CANADIAN INVESTMENT HELP DEVELOPING COUNTRIES?

Canadian investment in the developing countries has generally been regarded as desirable. But a study published today by the Economic Council of Canada says that direct investment in these countries by Canadian-controlled multinational corporations may not be beneficial either for the developing countries or for Canada itself.

Steven Langdon, of the Economics Department at Carleton University, says that the Canadian government "should abandon its public policy stance of encouragement for increased Canadian direct investment in developing countries and adopt a position of strict agnosticism on the matter". While direct investment may well continue, government policy should focus on other aspects of development.

Although it is widely believed that "Canadian" investment in developing countries comes mainly from the Canadian subsidiaries of foreign corporations, Langdon says that Canadian-controlled corporations have now become important participants in direct foreign investment and technology marketing in the developing world, and Canada's economic relations with those countries have been affected by this.

Steven W. Langdon, Canadian Private Direct Investment and Technology Marketing in Developing Countries. Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-82/1980E. Price in Canada: \$8.95; Other Countries: \$10.75.

In transferring technology to developing countries, these firms often establish the same capital-intensive production techniques they are using elsewhere in their organization, so they generate less employment in the host country than a domestic enterprise would. And by setting up production facilities overseas, the Canadian company may be reducing employment opportunities for Canadian workers who would otherwise be producing for export to those countries.

Canadian-controlled multinationals have switched some of their resource investments to the developing countries, says Langdon, and this has "almost certainly come at the expense of domestic investments in resource processing and manufacturing that would have generated wide social benefits for Canadians". In the continuing argument between governments and the resource corporations about how resource earnings should be divided, the resource companies can then play off different options against the government authorities in Canada to get a larger share of the windfall profits generated in this country.

Canadian policy has encouraged this direct investment and yet there is no significant information assessment process to review its impact. Langdon recommends an extension of the government insurance guarantees program, with an independent public agency, other than the Export Development Corporation, being given a mandate "to assess investment projects carefully and fairly from a Canadian and developing-country perspective, rather than a mandate to expand Canadian exports".

Canadian policy should also look at different ways of transferring technology to developing countries, he says, such as through government agencies like the National Research Council or other bodies like the universities, co-operatives or Oxfam.

The findings of the study are the personal responsibility of author and, as such, have not been endorsed by members of the Economic Council of Canada.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR 80/06

For immediate release
October 27, 1980

THE CONSUMER PRICE INDEX

The Consumer Price Index does not tell the full story of inflation, but just the same, it can serve as a useful guide to price movements in the economy.

A study published today by the Economic Council of Canada says that the responsibility for existing inflation lies with all four economic partners: government, business, labour and consumers. "In their search for an equitable arbitrator for inflation," says the report, "they have turned to the CPI because its features lend easily to annual or quarterly adjustments for inflation. As a result, however, the CPI increasingly is assumed to be the final word about inflation when, in fact, it is only one word."

Originally prepared for the Centre for the Study of Inflation and Productivity, the study by M. C. McCracken and E. Ruddick, discusses the limitations of the Consumer Price Index as a measure of inflation and points out that it is not a cost of living index.

However, the authors say that the CPI is useful as a benchmark against which to assess government policies, and because its value does not change after publication, it is "a convenient tool to use when compensating for inflation."

The findings of the study are the personal responsibility of the authors and, as such, have not been endorsed by members of the Economic Council of Canada.

For further information, contact Monica Townson (613) 993-1068

M. C. McCracken and E. Ruddick, Towards a Better Understanding of the Consumer Price Index. Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-88/1980E. Price in Canada: $3.50; Other countries: $4.20.

Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR80/08

DO NOT PUBLISH BEFORE
10:30 a.m. Newfoundland Time
9:00 a.m. Eastern Standard Time
Wednesday, November 19, 1980

ECONOMIC COUNCIL OF CANADA RELEASES TWO-YEAR STUDY OF NEWFOUNDLAND ECONOMY

ST. JOHN'S... The Economic Council of Canada today released a major report on the economy of Newfoundland. Based on a two-year study of the province, the report Newfoundland: From Dependency to Self-Reliance says that the provincial government should start negotiations with Ottawa to "change a wide range of government policies in order to overcome economic problems in the Newfoundland economy."

At a press conference today in St. John's, Council Chairman, Dr. David Slater, said "The province is at a very important crossroads with respect to the fishery and the oil industry. It has an excellent opportunity to make new strides in raising the performance of its economy. We are convinced that our findings and recommendations can be of considerable help."

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e Council's study of Newfoundland was undertaken at the request of the ovincial government and special funding amounting to $1.5 million was located by the federal government. The project marks the first time the uncil has conducted an in-depth study of a provincial economy since it s established in 1963. Much of the research was carried out in wfoundland and an office was set up in St. John's to co-ordinate the rk.

. Slater said the Council was asked to look at alternative means of:

reducing the unemployment rate in Newfoundland;

raising earned incomes in Newfoundland, especially through raising productivity and employment;

reducing the dependency of Newfoundland on transfer payments from the federal government;

assisting the Newfoundland government to plan its development strategy in the medium term.

n calling for a "new deal" for Newfoundland, Dr. Slater said "the ojective should not be to cut off the transfers to Newfoundland, but to eorganize them in a way that will eliminate the detrimental side effects hey have on the economy, while at the same time developing ways to ompensate those who will be affected by any policy changes."

he report contains 25 recommendations dealing with employment pportunities, re-training of workers, control of the fishery, the evelopment of offshore oil and gas, and unemployment insurance.

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he Council recommends:

- strict control of the entire Atlantic fishery through a licensing system administered by the Department of Fisheries and Oceans;
- the development of a system of income insurance for self-employed fishermen;
- a system of transferable landing rights for the fishery;
- upgrading the harbour facilities in St. John's and the development of port facilities in the west of the island to handle container cargoes;
- establishment of a training centre in the St. John's area so that Newfoundlanders can get the training they need to work in the new offshore oil industry;
- an advisory council, reporting to the Premier, to monitor productivity and efficiency in the provincial economy;
- changing the present system of special unemployment insurance benefits for fishermen and regionally extended benefits and replacing them with flat rate benefits or some kind of income maintenance scheme to be financed jointly by the provincial and federal governments.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR80/09

DO NOT PUBLISH BEFORE
10:30 a.m. Newfoundland Time
9:00 a.m. Eastern Standard Time
Wednesday, November 19, 1980

PRODUCTIVITY CAN BE IMPROVED

ST. JOHN'S... Low productivity is one of the main reasons for Newfoundland's high unemployment, low income and dependency on government transfer programs, according to a report released today by the Economic Council of Canada. Based on a two-year study of the Newfoundland economy, the report, Newfoundland: From Dependency to Self-Reliance, says that "it is wrong to assume that lower productivity in Newfoundland is inevitable."

Many of the causes of low productivity can be corrected, says the Council. Better use could be made of existing plant and equipment, and governments could help improve productivity "by developing efficient services, especially in transportation, and by permitting the concentration of business activity in well-located centres."

The Council said that it is convinced "that the labour movement can contribute much to raising productivity and to helping workers improve their own skills. This would help them find jobs that will last." It

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recommends that a system of on-the-job training, apprenticeship and certification be developed by the Newfoundland government, in co-operation with trade unions, trade schools and businesses, and put in place by the end of 1981. Such a policy would ensure that trained Newfoundlanders have access to skilled jobs right across Canada, which would enable them "to obtain more continuous employment," says the Council, "and thereby gain more experience and proficiency."

The Council notes that until recently there was nowhere that Newfoundlanders could get the training they need for the newly developing off-shore oil industry. Training facilities now available are insufficient. It recommends that a centre of training and certifying workers for the oil industry be set up in the St. John's area by 1981.

The province should aim to reduce the productivity gap between Newfoundland and the rest of Canada by at least one-third by 1990, says the Council. It recommends the establishment of an advisory council on industry performance, to report publicly to the Premier each year, with a mandate to "monitor, study, report and advise on any aspect relating to productivity and efficiency in the provincial economy."

"We are not simply passing the buck in suggesting such an agency," the Council says. "If a policy on productivity is to be carried into every sector of the economy, there must be some agency whose job it is -- on a day-to-day basis -- to study what is happening, to propose concrete measures to close the productivity gap, and to see that action is taken."

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The Economic Council's study of Newfoundland was undertaken at the request of the provincial government and the full report was released in St. John's today.

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Economic Council of Canada / Conseil économique du Canada

news release/communiqué

PR80/10

DO NOT PUBLISH BEFORE
10:30 a.m. Newfoundland Time
9:00 a.m. Eastern Standard Time
Wednesday, November 19, 1980

CHANGES NEEDED IN FISHERY MANAGEMENT

ST. JOHN'S... The fishery could make a major contribution to higher incomes and improved productivity in Newfoundland if changes are made in the way fishing is managed, says the Economic Council of Canada.

In its report on the Newfoundland economy Newfoundland: From Dependency to Self-Reliance, released today, the Council says the the 200-mile limit, adopted almost four years ago, provides "a remarkable opportunity to institute a new management regime that will increase the annual output from the resource, as well as the incomes of thousands of fishermen and fish plant workers. The opportunity can be lost," says the Council, "unless effective control is instituted over entry to the industry and over harvesting of the fish."

The Council recommends changes in the system of licensing by the federal Department of Fisheries and Oceans for the entire Atlantic fishery "as a matter of urgency." The number of fishing licences should be strictly

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controlled, it says, suitable fees should be charged for licences which should be for a specific number of years and should be transferable.

In addition, "given the current state of over-entry into the Newfoundland fishery," says the Council, "subsidies to fishermen, such as gear subsidies, fuel tax exemptions, and unemployment insurance benefits paid in excess of premiums collected, all serve to make a bad situation worse." It recommends that gear, boat and other subsidies to the fishery be discontinued.

Among other Council recommendations on the fishery are a system of self-financing, compulsory income insurance for self-employed fishermen, an agreement between the federal and provincial governments on how the catch should be shared, and better policing of the Nose and Tail of the Grand Banks of Newfoundland to make sure that foreign ships are observing international regulations.

The Council's two-year study of Newfoundland was undertaken at the request of the provincial government and the report was released in St. John's today.

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news release/communiqué

PR80/11

DO NOT PUBLISH BEFORE
10:30 a.m. Newfoundland Time
9:00 a.m. Eastern Standard Time
Wednesday, November 19, 1980

ECONOMIC COUNCIL OF CANADA WARNS OFFSHORE OIL AND GAS NOT A PANACEA FOR NEWFOUNDLAND'S PROBLEMS

ST. JOHN'S... Offshore oil could turn Newfoundland into a "have" province, but the Economic Council of Canada says that the federal and provincial governments should "prepare the economic environment in advance."

In a report, Newfoundland: From Dependency to Self-Reliance, released today, the Council recommends that the federal government co-operate with the Newfoundland government in developing a comprehensive strategy to make sure that the oil industry is phased in without any adverse effects on the economy of the province. It also suggests that the provincial government should establish a Crown Corporation to receive a substantial share of the province's future oil and gas revenues which it would invest so that the non-renewable resource can be shared among generations.

"Except for revenues from the sale of exploration leases," says the Council, "there are unlikely to be substantial resource revenues in Newfoundland and Labrador before the mid-1980s." And the question of

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ownership, control and price have to be resolved before development can take place. The Council's recommendation on price is that Newfoundland's offshore oil should be priced "as closely as possible to the long-run cost of acquiring additional oil for Canadians." But some Council members did not agree with pricing Canadian oil at world prices.

Once development does get under way, there will probably be substantial revenues, although the Council points out that these will be offset to some extent by the reduction in equalization payments to the province.

The Council warns that offshore oil and gas "will not be a panacea for all of the province's ills." There will not be much direct impact on employment in the long run because most of the jobs will be in "one-shot construction activities." "It seems unlikely," says the Council, "that oil and gas will be the answer to Newfoundland's high unemployment and low productivity."

The Council's two-year study of Newfoundland was undertaken at the request of the provincial government and the report was released in St. John's today.

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Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR80/13

DO NOT PUBLISH BEFORE
11 a.m. EST
WEDNESDAY, DECEMBER 10, 1980

ECONOMIC COUNCIL SAYS INDECISION AND UNCERTAINTY MAY AFFECT ECONOMY'S PERFORMANCE

OTTAWA. The Economic Council of Canada, in its Seventeenth Annual Review, released today, says that "achieving a better rate of growth in the real incomes of Canadians ... can be done" in this decade. But the Council is "not optimistic" about the near-term economic outlook for Canada. The Council says the economic situation has deteriorated since it reported last year. In part, this reflects the worsened situation of the country's major trading partners. "But it also reflects the indecision and the increased uncertainty surrounding domestic policy on several important issues".

The report, titled A Climate of Uncertainty, says that now "domestic economic problems seem even less amenable to an easy policy fix". The Council warns that domestic oil pricing policy, delays in energy investment, acceleration of inflationary pressures and the federal government deficit will all pose problems for the economy, and could affect performance in the medium term unless they are dealt with.

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The report, prepared before the recent federal budget was presented, makes projections for the economy over the next ten years, based on working assumption about the external environment and on a continuation of policies in force at the beginning of October. Other projections estimate the impact of different economic scenarios such as changing oil prices, improved productivity, and lower investment. In a separate paper, Council economists estimate how these projections have changed as a result of the budget.

The Council's initial projection for the economy says:

. Real growth in 1980 will probably be "extremely weak" with "unspectacular recovery" expected during the 1981-83 period. "Only in the closing years of the decade is actual performance projected to be near its potential level", says the Council.

. Inflation is likely to be at double-digit levels in 1980 and will probably continue high through 1982. In the longer term, inflation is expected to average eight per cent to nine per cent a year.

. Unemployment will probably hover around eight per cent next year and drift downward slowly to under six per cent only by the close of the decade.

. Before the recent budget, the Council had expected the trend to federal deficits and provincial surpluses to continue with the federal deficit easing somewhat in the late 1980s. Provincial surpluses were expected to increase to 1985 and then to decline to about the same percentage of gross national expenditure in 1990 as in 1980. These results depend on continued restraint in government spending throughout the decade.

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Since the budget, Council economists have now made preliminary estimates of the effects of the budget and the National Energy Program on the Council's initial projections. As a result of the budget and energy program, it is estimated that the projected growth rates will be smaller in the 1981-85 period, the projected unemployment rate higher, and the projected inflation rate somewhat higher, as was indicated in the budget statement itself.

Council economists expect the budget and the National Energy Program to improve the fiscal position of the federal government, but they warn that these calculations "must be interpreted with a great deal of caution". They depend on the assumption that domestic consumers will substitute natural gas for oil so that oil imports and import subsidies can be reduced substantially. "If this substitution does not occur", a background paper says, "import subsidy payments will not decline and the current account balance will not improve".

The Council says that when it reported last year, "two driving forces in the Canadian economy could be identified: the world and particularly the U.S. outlook... and high domestic energy investment". Now only the energy investment remains to move the Canadian economy forward in the 1981-83 period. "The current weakness", says the Council, "will be reflected in the medium term in slower output and productivity growth, a larger overall government sector deficit and, in the later years of the decade, greater difficulty in reducing inflation".

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Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR80/14

DO NOT PUBLISH BEFORE
11 a.m. EST
WEDNESDAY, DECEMBER 10, 1980

POOR PRODUCTIVITY PERFORMANCE HAS MEANT LOSS OF INCOME

"Poor productivity performance has meant lower real incomes and higher prices for Canadians," according to the Economic Council of Canada.

In its Seventeenth Annual Review A Climate of Uncertainty, released today, the Council says that "if the kind of productivity growth experienced in the fifteen years up to 1973 had been maintained throughout the 1970s, Canada's total output -- the total of goods and services available for all uses -- would have been about 14 per cent higher in 1979 than it actually was". In the six-year period from 1974 to 1979, says the Council, "Canadians could have had nearly $ 58 billion more to spend on private consumption and social programs". (The calculations are based on constant 1971 dollars.)

The Council cautions that achievement of productivity growth is not without cost, at least in the short run. "At any particular time", it says, "the benefits of improved productivity may not be evenly distributed". Some workers may lose their jobs as a result

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of technological change which might improve productivity. "Compensatory policies to deal with these effects would be necessary to ease the adjustment process", says the Council.

Three chapters of the Council's report are devoted to a discussion of productivity, including an analysis of the recent productivity slowdown. The Council says it can account for only about half of the slowdown as a result of its research to date. It concludes that about one-quarter of the economy-wide productivity slowdown was due to "cyclically weak demand".

On the subject of soaring energy prices, the Council says "the evidence is not conclusive enough to pin principal responsibility for the productivity slowdown on changes in the price of energy and materials". It says further research, now under way at the Economic Council and elsewhere in Canada and the United States, should make it possible "to work out the temporary and more permanent implications for labour productivity" and to "make judgements on whether the energy price rise has played a major or a minor role in the productivity problem of the last few years, on whether the effects are over or close to it, and on whether the productivity effects will be minor or major if future energy price increases exceed the general rate of inflation".

The Council says that since the bulk of its work on productivity is still in progress, it is not yet in a position to make detailed recommendations on the subject.

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Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR80/15

DO NOT PUBLISH BEFORE
11 a.m. EST
WEDNESDAY, DECEMBER 10, 1980

ENERGY INVESTMENT MUST NOT BE DELAYED, SAYS COUNCIL

OTTAWA. The Economic Council of Canada says that it is concerned the investment in large-scale energy projects may be held up because of uncertainty about energy pricing and sharing of oil revenues. In its Seventeenth Annual Review, A Climate of Uncertainty published today, the Council recommends "that the federal and provincial governments take all the steps necessary to ensure that the large energy investment projects... proceed without further delay."

The Council says that as many as 753,000 jobs could be lost over the next ten years if the energy-related investment does not take place. "Questions arise about the capacity of the economy to finance the massive expansion in capital formation required by energy-related investment," says the Council. "When investment expands as a share of Gross National Expenditure, private consumption and/or government expenditure must decline, or inflows of foreign funds must expand." Cancellation of major energy projects would tend to reduce Canada's reliance on foreign investment in the short term, but dependence on the foreign sector would grow steadily from the mid-1980s onward, the Council says.

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According to the Council, it may be hard to increase domestic savings because rates of savings by both individuals and businesses are already very high. But at the very least, "nothing should be done to reduce savings incentives generally". The Council notes that the personal savings rate could be increased by about one percentage point in the late 1980s if the maximum allowable contribution to Registered Retirement Savings Plans were adjusted in line with the Consumer Price Index.

The Council says that "to ensure future investments in energy, the return on investment to producers must be sufficient. Moreover, investment in alternative energy sources and conservation, as well as in fossil fuels, may well depend on higher energy prices. Since investment in energy projects is carrying an otherwise very slack economy, many important decisions are dependent upon the outcome of policy in this important area."

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Economic Council of Canada
Conseil économique du Canada

news release/communiqué

PR80/16

DO NOT PUBLISH BEFORE
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WEDNESDAY, DECEMBER 10, 1980

DEFICIT COULD BE CUT IF ECONOMY OPERATED AT POTENTIAL, ECONOMIC COUNCIL SAYS

OTTAWA. The Canadian economy could lose as much as $120 billion in output over the next ten years because it is operating below potential. The Economic Council of Canada, in its Seventeenth Annual Review, A Climate of Uncertainty released today, says that if the output gap, measured in 1971 dollars, could be eliminated, government deficits could be cut significantly. The federal government deficit would shrink by $5 to $7 billion in 1981 and Ottawa could even be in a surplus position by 1990 if the economy reached a high potential.

The Council's calculations are based on projections of labour force growth, productivity and a "non inflationary rate of unemployment," using its CANDIDE econometric model. It came up with two potential paths for output growth. Under the higher of the two, which assumes higher labour force growth and improved productivity, "a modest surplus of $1.6 billion could be realized" for the federal government by 1990, says the Council. Reaching the low potential path would not eliminate but would, by itself, substantially reduce the federal deficit.

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The Council says that the Canadian economy was operating close to potential in 1973. But since then, growth in output has averaged three per cent a year instead of the 4.2 per cent that might have been expected for the 1973 to 1978 period. "Both the actual and potential rate of output growth will be lower in the 1980s than in previous decades," says the Council, "not only because the growth rate of output per person-hour (productivity) will be lower but also because the labour force will be growing more slowly." The Council says its calculations indicate that "to close the gap in one year, the economy would have to achieve a nine per cent actual output growth rate. This calculation provides an indication of the immensity of the job required to move back to potential," says the Council, "even using the low potential output growth calculation as an estimate of what the economy is capable of doing."

The Council says that much of the output gap can be attributed to the "external environment," especially the worsening economic situation in the United States. "Had it not been for the current U.S. cyclical slowdown," it says, "by mid-decade we could have closed the low potential output gap or closed about half of the high path potential output gap."

The Council warns that improvement in productivity might help to ease inflationary pressures in the economy, but could make the output gap worse unless accompanied by an increase in aggregate demand - "something that might be difficult in the current world economic environment," the Council says.

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Economic Council of Canada

Conseil économique du Canada

news release/communiqué

PR81/03

For immediate release
Monday, February 9, 1981

REDISTRIBUTIVE EFFECTS OF CANADA'S
PUBLIC PENSION PROGRAMS

Future generations of Canadians owe the present generation a large pension debt, says a report released today by the Economic Council of Canada. But an increase in present contribution rates to the public pension system could greatly reduce that burden, the study concludes.

This pension debt is a net gain for the present generation, which will draw much greater benefits from the Canadian pension system than they are now putting in. The transfer, the study states, represents a massive redistribution of income between generations that will have significant effects on the economy if the present generation alters its savings patterns in expectation of acquiring this "social security wealth" when it reaches the age of retirement.

The study, by Samuel A. Rea Jr. of the University of Toronto uses an intricate "life simulation system" to study the public pension system. The study is part of a series on the Canadian pension system published by the Council. The Council's recommendations for changes to the pension system were outlined in the report "One in Three," published in 1979.

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Samuel A. Rea Jr., Redistributive Effects of Canada's Public Pension Programs. Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-89/1980E. Price in Canada: $4.25; Other Countries: $5.10.

The study confirms the ECC's earlier finding that the Canada Pension Plan/Quebec Pension Plan portions of the pension system inequitably give greatest benefits to those earning the highest incomes, to the particular detriment of women.

An immediate increase from the present contribution rate of 3.6 per cent of contributory earnings to 9.4 per cent would "sharply reverse" this situation. And the higher rate would also mean that those now entering the labour force would be fully funding their own future benefits thus decreasing the debt load on future generations.

Overall, the pension system is progressive because the OAS/GIS plans are financed from general revenues. But the author says that the overall system will become less progressive in time unless there is a significant increase in the contribution rate for the CPP/QPP plans.

Rates will have to rise by the year 2007, when it is estimated the CPP/QPP pension fund will be exhausted. And some observers have predicted that the payment of pension benefits after the fund is exhausted will destroy the Canadian economy because of the high contribution rates that will be imposed upon the work force. But Rea says that "Given today's benefit structure and our test estimates of future demographic trends, this concern over future tax rates is unjustified". Benefits paid out under public pension programs in 1980 represented 4.49 per cent of aggregate earnings, and he estimates that this figure could increase to between 6.49 and 11 per cent by the year 2030.

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Conseil économique du Canada

news release/communiqué

PR81/04

For immediate release
Monday, February 23, 1981

WAGE DIFFERENTIALS BETWEEN FRANCOPHONES AND ANGLOPHONES IN MONTREAL ARE DISAPPEARING

Income disparities between male, anglophone and francophone workers in Montreal are rapidly decreasing and may soon disappear, according to a study released today by the Economic Council of Canada.

In 1961, average income of male anglophone wage earners was 51 per cent higher than that of francophones. The wage gap between the two linguistic groups narrowed to 32 per cent in 1970 and was down to 15 per cent by 1977. Author Jac-André Boulet, an economist with the Economic Council of Canada, concludes that if income gains by francophones continue at the same rate, the income disparities between the two groups will disappear by 1982.

Montreal's role as a national and international business centre has provided a source of jobs, but it probably also played a major part in creating the earnings disparities, according to Boulet. The concentration of head offices in that city, along with branches of firms operating in world markets and the hiring and promotion policies that these firms adopted are all important in explaining

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Boulet J.-A., Language and Earnings in Montreal. Economic Council of Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-90/1980E. Price in Canada: $9.95; Other Countries: $11.95.

the disparities. Boulet found that in 1971 highly-paid workers born outside Quebec accounted for 61 per cent of the disparities, although they represented only 4 per cent of the total Montreal work force. He says that francophone workers may have had trouble breaking into the information network created in large part by anglophone workers born outside Quebec.

Declining importance of Montreal as a business centre would lead to a narrowing of the income gap between francophones and anglophones and Boulet says that it would be reasonable to conclude that one of the reasons francophones have gained since 1971 is that highly-paid anglophones have left Montreal.

A discussion paper by Boulet, with preliminary findings of the present study, received wide attention in Quebec in 1979. The present study examines in greater detail the causes for the remaining income disparities among male workers in Montreal. The study was limited to Montreal because it is the economic hub of Quebec. The inclusion in the study of women income earners was not possible, according to the author, because they have, as a group, undergone a very different evolution than male workers. "The problems of the female work force are so important they merit a separate study."

The findings of the study are the personal responsibility of the author and, as such, have not been endorsed by members of the Economic Council of Canada.

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Conseil économique du Canada

news release/communiqué

PR81/07

FOR IMMEDIATE RELEASE
Monday, March 30, 1981

STUDY PROPOSES ALTERNATIVE APPROACH TO REGIONAL DEVELOPMENT

Regional development policies have not decreased unemployment levels in Eastern Canada because they are based on mistaken assumptions, argues a study published today by the Economic Council of Canada.

The study maintains that policies aimed at reducing regional disparities neglect productivity as a key factor in reducing unemployment, ignore service industries and incorrectly assume that the migration of workers out of high unemployment areas is good for those who stay behind.

The authors, Council economists Neil Swan and Paul E. Kovacs, undertook the study to explain why Eastern Canada continues to have higher unemployment rates and lower wage rates than the rest of Canada despite impressive rates of job creation and wage growth.

Swan, N.M. and J.E. Kovacs, Empirical Testing on Newfoundland Data of a Theory of Regional Disparities. Ottawa: Supply and Services Canada -- Cat. No. EC22-92/1980E. Price in Canada: $4.95, Other Countries: $5.95.

In 1979, for example, the unemployment rate in Quebec was 9.6 per cent, or 28 per cent greater than the national average. Yet the job creation rate in the province between 1947-50 and 1976-79 was a phenomenal 85 per cent, twice that of the United States. Similarly, unemployment in the Maritimes was very high despite a job creation rate between 1947-50 and 1976-79 of 46 per cent. Wage levels in Eastern Canada have also risen steadily but still remain below the national average.

This paradoxical situation has persisted despite federal measures to remedy the problem through transfer payments or through more "activist" policies of regional development. The problem, according to the authors, is that the prescriptions may have been based on a faulty diagnosis.

Federal regional development policies are based on the premise that subsidizing capital to increase manufacturing and resource production for export markets, combined with the normal migration of workers out of high unemployment areas, should produce more jobs and higher wage rates for those who stay behind.

The evidence to the contrary leads the authors to propose an alternative approach to regional development that is based on improving the efficiency, and thus the productivity, of manufacturing and resource production in Eastern Canada. Equally, important the authors recommend that programs to improve productivity should be extended to various service sectors of regional economies.

"Current regional policy-making rarely pays any attention to improving productivity, and it almost never considers improving productivity in industries producing strictly for the local market, such as retail and wholesale trade, local trucking, local and provincial government administration, construction and business and personal sevices."

The authors point out that these areas of activity account for 60 to 70 per cent of the economic activity in Canada, including eastern regions.

Improvements in productivity could accomplish what past policies have failed to do: bring about an enduring reduction in unemployment in Eastern Canada and the reduction of wage disparities with other regions of the country. Methods to increase productivity involve improvements in production methods, techniques and equipment which achieve greater efficiency.

The study deals a blow to the common assumption that migration of workers out of high unemployment areas will decrease unemployment rates and raise the average wages of those who stay behind.

The tests conducted by the authors in the case of Newfoundland refute this belief. "This is a radical conclusion," the authors state, since it places more responsibility for curing regional disparities on policy-makers than on individuals.

Another conclusion of the study is that federal policies to increase employment in all of Canada are one of the surest ways of significantly lowering unemployment rates in regions of high unemployment.

"Consequently, a policy implication of our results is that the importance of lower national unemployment in regional unemployment disparities should be given appropriate weight in assessing the national trade-off between unemployment and inflation."

This study is the latest in a series conducted as part of the Economic Council's extensive study of the Newfoundland economy. The report of that study, Newfoundland: From Dependency to Self-Reliance, was published in 1980.

The findings of the study are the personal responsibility of the authors and, as such, have not been endorsed by members of the Economic Council of Canada.

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News Release Communiqué

PR 81/08

For immediate release
Monday, April 6, 1981

STUDY PROPOSES BETTER FORESTRY MANAGEMENT TO CREATE JOBS

Forest management and improved utilization of forests could increase employment in Newfoundland's logging, sawmill and pulp and paper industries, according to a study published today by the Economic Council of Canada.

The author, John A. Gray of the University of Manitoba, concludes that "timber will become a scarce resource" in the province unless the Newfoundland government adopts policies for better management and more efficient exploitation of the island's forests.

Newfoundland's forest industry provides 5 000 person-years of full-time employment for islanders, ranking it third among resource employers.

A total of 75 per cent of the island's forests are now mature or overmature trees while only 25 per cent consist of immature trees, the forests of the future. Failure to properly manage these immature stands could bring a decline in the island's forests by the year 2 000, or even earlier if the spruce budworm infestation continues its ravages.

The author concludes there has been little motivation in the past to undertake an effective program of forest management.

Gray, John A., The Trees behind the Shore: The Forests and Forest Industries in Newfoundland and Labrador. Ottawa: Supply and Services Canada -- Cat. No. EC22-91/1980E. Price in Canada: $9.95, Other Countries: $11.95.

"With virtually no revenues from the forest, the government has little incentive to engage in forest management, as the financial benefits go to the companies. On the other hand, there is little incentive for the companies to engage in forest management, since they already have a sufficient or excess timber supply from the excess of licences allocated."

Forest management and better utilization of forests could not only prolong the supply of wood but could increase employment in the logging and sawmill industries, the report concludes.

The industry is divided into production of newsprint, lumber and fuel wood. Despite its excess of mature trees Newfoundland's sawmills operate far below capacity and the province must import more than half its lumber from the mainland.

Measures to improve allocation of logs, providing large logs to sawmills, and chips and small logs to pulp and paper mills would help the province produce most of the lumber it now imports.

The study focuses on forests on the island of Newfoundland. There are extensive forests in Labrador but most are too distant from processing plants and markets for economic exploitation.

Four Royal Commissions have studied Newfoundland's forest industry since 1955. Yet, forestry policies and problems have not changed much in the past 100 years. It may be difficult, however, to increase or even sustain employment -- especially in the face of the spruce budworm problem -- the study concludes, unless the government of Newfoundland moves to renew the province's forests and to improve their exploitation.

The findings of the study are the personal responsibility of the author and, as such, have not been endorsed by members of the Economic Council of Canada.

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News Release Communiqué

PR81/09

DO NOT PUBLISH BEFORE
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THURSDAY, JUNE 11, 1981

ECONOMIC COUNCIL OF CANADA
RELEASES REPORT ON REGULATION

OTTAWA -- The Economic Council of Canada says that policies are needed to offset the attraction of regulation or to make it much more difficult.

In its final report on regulation, released today in Ottawa, the Council says that its research suggests that "Canada's comprehensive system of direct economic controls (regulation of prices, services and who may participate in an industry or occupation) has resulted in a substantial waste of economic resources and reduced the degree of dynamism and innovation in several important sectors of the Canadian economy." "While we recognize the need for regulation," says the Council, "our approach is to favour individual choice and non-coercive exchanges that are part of the market process."

The Council's three-year study of how government regulations affect the economy was requested by the Prime Minister after the First Ministers' meeting in February 1978 agreed to ask the Economic Council to look at the question and make recommendations for action, in consultation with the provinces and the private sector. An interim report was published in November 1978. More than 50 supporting studies and background papers also were commissioned by the Council and many of these have already been issued.

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The final report, Reforming Regulation, looks at the impact of regulation on business generally, as well as dealing with specific sectors of the economy such as telecommunications, transportation, fisheries and agricultural marketing boards, and more general issues like occupational health and environmental pollution. The Council makes 66 specific recommendations for change.

While there are many reasons for the growth of regulation in Canada, the Council points out that "the perception of the public interest that has provided the basis for much of the regulatory legislation has been strongly influenced by the views of specific groups in society. The fact that the costs of many regulatory initiatives are widely diffused among consumers has no doubt softened a good deal of opposition," it says.

Direct economic regulation is a "subtle policy instrument whose effects are often unclear," the Council says. And this kind of regulation has a tendency to expand "steadily and almost imperceptibly in scope and degree." Eventually, though, many regulations tend to outlive their usefulness. The conditions that led to their introduction may no longer exist or even if they do, there may be new and more pressing demands on the economy's scarce resources. What may have seemed appropriate in the high-growth climate of the 1950s and 1960s may have very different consequences and meaning in the halting economic environment of the 1980s -- especially when government regulatory policies are inhibiting the natural dynamics of markets.

Council Chairman, David Slater, told a press conference today that the Council hopes its report will raise the level of public consciousness about regulation. "The lack of public understanding of

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regulation has made it hard to generate much enthusiasm for reform in the past," he said. "We're hoping that our report will go some way towards solving this problem."

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News Release Communiqué

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DO NOT PUBLISH BEFORE
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ECONOMIC COUNCIL REJECTS ARBITRARY LIMITS ON REGULATION OF BUSINESS

OTTAWA -- The Economic Council of Canada has rejected proposals that would arbitrarily set limits on the regulation of business. In its final report on government regulation of the economy, Reforming Regulation, released today, the Council says that while legislators should be careful that the benefits of any new regulations will outweigh the cost, some regulatory restrictions of the private sector are justified.

Regulation in the areas of consumer protection, environment and occupational health and safety is not excessive, the Council concludes. "Our findings on this score may seem to depart significantly from some of the misgivings about various types of social regulation that are common in the United States," it says, "but important historical, political and institutional differences between the two countries explain this." Concerns expressed by U.S. business that the cost of some of these new regulations far outweights the benefits, have not been proven in Canada, it says.

The Council's three-year study of regulation included case studies of a number of major corporations as well as interviews with small businesses to see how regulation is affecting their operations. It found that many business people agreed with the objectives and the

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need for regulation. What came through most clearly from the case studies and interviews was that "what businessmen found objectionable was not the regulations themselves but the processes by which they were introduced, made known and applied."

Overlapping jurisdiction, duplication and inconsistency in the application of regulations were common problems. While different government departments or different levels of government negotiate, companies are often caught in the middle bearing the brunt of costly delays. Higher prices to consumers and poorer overall business performance may result.

However, the Council found that large corporations, especially those in industries where there is a high degree of corporate concentration and which produce mainly for the domestic market, "are experienced in adapting their operations to meet most regulatory requirements and in passing the costs on in higher prices or subsuming them in their operations as part of the additional costs of doing business."

For small businesses, the Council found "their principal headache seemed to be the paperwork associated with taxation, statistics and customs and excise requirements" and they had only a limited sense of the extent to which economic regulations affected them.

The Council says that there is a need for a better understanding of regulatory procedures by business. It recommends that governments codify and publicize the major steps in the regulatory process. It also recommends that where federal and provincial jurisdictions both

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have responsibility for a single product or development project they explore the feasibility of designating one department as co-ordinator for all regulations relating to it.

Finally, the Council says, "policies are certainly needed to make the compliance costs incurred by the private sector more visible and to give all concerned groups a stronger role in the regulation-making process."

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News Release

Communiqué

PR81/11

DO NOT PUBLISH BEFORE
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VIGOROUS PROGRAM OF REFORM NEEDED IN REGULATION

OTTAWA -- Direct regulation of the economy has been "a much overused policy instrument" says the Economic Council of Canada and many regulated areas are now in need of a vigorous program of reform.

In its final report on government regulation of the economy, Reforming Regulation, released today, the Council says that where markets are now "workably competitive" direct economic regulation is generally not in the public interest. Some of the barriers to competition should be dismantled in regulated sectors of the economy, such as transportation, telecommunications and agriculture.

Almost 30 per cent of the economy's total domestic output of goods and services was subject to direct regulation in 1978, so changes could have "a substantial impact on the economy," the Council says. Its three-year study of government regulation was undertaken at the request of the Prime Minister after a 1978 First Ministers' meeting decided to ask the Economic Council to look at the question and come up with recommendations. An interim report was published in November 1978.

The Council says that the broad social and economic objectives that direct regulations were originally intended to serve need not become a

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barrier to reform -- in some cases they are no longer being achieved. And in almost every case there are "other more direct ways of providing the desired benefits to selected groups of the population."

Four chapters of the report deal with direct regulation of various sectors of the economy. Suggested reforms are based on the view that "the market is normally the more efficient control mechanism and is preferable to a statutory agency." The ultimate responsibility for policing the market place, according to the Council, lies with the federal government's Bureau of Competition Policy. It also supports the reform of competition policy, particularly in such matters as mergers and monopolies where, it says, "present legislation is almost totally ineffective."

Specific recommendations for the sectors of the economy under direct regulation include:

- Abolition of price regulation and restrictions on the operating freedom of commercial trucking;

- Relaxation of restrictions on private trucking;

- Relaxation of restrictive controls by municipalities over taxicab operations and in large metropolitan areas assigning licensing responsibility to an authority that can exercise regulatory control over the entire urban area;

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- Elimination of air transportation entry and service regulations, and increased competition between charter and scheduled carriers over the next four years;

- Greater competition in telecommunications, especially in provision of equipment and specialized business services;

- Adjustments in the pricing policy of supply-managed agricultural commodities and expansion of production quotas over the next five or ten years;

- A review of the federal government's dairy policy and especially the industrial milk subsidy program to make it more selective and more efficient economically.

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News Release Communiqué

PR81/12

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THURSDAY, JUNE 11, 1981

SAFETY REGULATION NOT EXCESSIVE, SAYS ECONOMIC COUNCIL

OTTAWA -- Government regulations designed to meet social considerations are not excessive, says the Economic Council. In a report, Reforming Regulation, released today, the Council says that while regulations in the areas of consumer protection and occupational health and safety add to costs and affect our international competitiveness "where the health and safety of Canadians are concerned the potential benefits in reduced human suffering and lower medical and rehabilitation expenses make such costs well worth bearing."

The Council's report is based on a three-year study of the subject and was undertaken at the request of the Prime Minister after a February 1978 First Ministers' meeting asked that the question of government regulation of the economy be referred to the Economic Council for study and recommendations.

"Our experience shows that most employers are serious in their efforts to comply with prevailing standards," says the Council, "they do not want injured employees or filth-ridden rivers." This does not negate the value of having regulations, though, because companies that comply willingly will not want to be undercut by competitors who continue to violate regulations.

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Two chapters of the report deal with what the Council defines as "social regulations" - those intended to be preventive and to reduce at source, the potential hazards to human health, safety, and contentment." The Council points out that "scores of new drugs, chemical products and processes are introduced each month. The task of protecting the human condition is immense" and "there will always be new contingencies and new requirements for regulation."

In the area of occupational health and safety, the Council recommends:

. Increased worker participation in the regulation of occupational health and safety through the adoption across Canada of workplace health and safety committees, and the right of workers to refuse, without penalty, work they believe to be prejudicial to their safety or health;

. More inspectors, more inspections and stronger enforcement of occupational health and safety regulations;

. National health and safety standards to be developed by federal and provincial governments with the help of the Canadian Centre for Occupational Health and Safety.

In a chapter on the regulation of occupations, the Council recommends:

. Establishment of an Occupational Regulation Commission by each province and the federal government to co-ordinate various occupational

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groups under each jurisdiction, to keep the public informed and to hear appeals. Private bodies must be directly accountable to the government for their activities, the Council says.

• A systematic review by governments of existing and proposed occupational regulation to make sure that "the least restrictive form of regulation consistent with the protection of the public interest has been chosen ..."

• Prohibition by the provinces of unnecessary restrictions on the freedom of individual practitioners to set their own prices and disseminate information, if this cannot be done through the federal competition laws.

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News Release Communiqué

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THURSDAY, JUNE 11, 1981

MARKET INCENTIVES COULD HELP REGULATION IN SOME AREAS, ECONOMIC COUNCIL SAYS

OTTAWA -- Regulation of common property resources, such as ocean fisheries and the environment, is needed to reconcile the demands of competing users, says the Economic Council of Canada in a report released today. Overuse of resources leads to their degradation, and the adverse effects of varied chemical substances on human health and environmental quality have prompted governments to regulate. "We can see the potential in some areas for a regulatory system based on market incentives instead of technical specifications," the Council says. This might "encourage management to comply voluntarily through self-regulating decisions that are consistent with profit maximizing objectives."

The Council's report, Reforming Regulation, is based on a three-year study of government regulation of the economy and was undertaken at the request of the Prime Minister after a 1978 First Ministers' meeting decided to ask the Economic Council to study regulation and make recommendations.

"Our analyses of the fisheries and the protection of the environment indicate that there may be better ways to manage resources than those utilized under existing systems," the Council says. It recommends a system of marketable rights to catch fish and financial inducements for companies to control environmental pollution. But it points out that although governments have established property rights for other natural resources like timber, oil and gas and minerals, the complexities of

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the environment are such that more experience will be needed "before systems and institutions can be introduced to guarantee full protection for our resources and our environment."

Among the Council's recommendations in this area are:

. Regulation of individual ocean fisheries through a system of limited, tranferable landing rights, based on a specified total allowable catch, and possibly supplemented by landing taxes, licence fees and/or buy-back schemes;

. Gradual phasing out of direct subsidies and tax incentives to commercial fisheries;

. Stronger federal presence in the control of acid rain by giving the federal government power to regulate sources of air contaminants that cross provincial boundaries;

. A provincial government review of regulation of storage, transportation and treatment of hazardous wastes to increase treatment and disposal capacity and reduce the incidence of illegal dumpings;

. Serious consideration of financial incentives as a way of regulating environmental resources. In some cases, application of emission fees or transferable permits to allocate the use of air and water on an economic basis should be envisaged; in other cases, the use of pollution-control delay penalties should be considered.

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News Release Communiqué

- P6

PR81/15

FOR IMMEDIATE RELEASE
JUNE 17, 1981

"REFORMING REGULATION" FEATURED AT CONFERENCES IN TORONTO, MONTREAL, VANCOUVER

Government regulation, its costs and benefits will be the subjects of discussion at three Conferences to be held in June and July in Vancouver, Montreal and Toronto.

The focus of the conferences will be "Reforming Regulation", the exhaustive final report of the Economic Council of Canada's study of government regulation.

The conferences, to be held in Toronto June 25, Montreal June 29 and Vancouver July 6, are co-sponsored by the Economic Council and the Institute for Research on Public Policy.

Speakers will represent governments, regulated industries, farmers, fishermen, consumer groups and labour. They and the other participants will discuss the findings and conclusions of the study, which provides a detailed examination of current regulations in such areas as agriculture, telecommunications, trucking, environmental protection, occupational health and safety, air transportation and fisheries.

Speakers will include, in Toronto: Special Counsel Alan Gordon, Associate Secretary to the Ontario Cabinet; Hank Itven,Canadian Radio-Television Telecommunications Commission; Eldon Thompson, President of Telesat Canada; James S. Peterson, Member of Parliament (Willowdale) and former Chairman, House of Commons Special Committe on Regulatory Reform.

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In Montreal: Donald Johnston, President of the Treasury Board; Pierre Coté, Conseil du Patronat du Québec; André Raynauld, Université de Montréal; Pierre Gaudet, Président, Union des producteurs agricoles; Pierre O'Neil, Radio Canada; Louis Laberge, Président, Québec Federation of Labour.

In Vancouver: Senator Ed Lawson, Canadian Conference of Teamsters; Michael Walker, the Fraser Institute; John H. Nichol, President, United Fishermen and Allied Workers' Union; Ian Gray, President, Canadian Pacific Airlines; Mr. Justice Thomas R. Berger, Supreme Court of British Columbia; Chuck Cook, Member of Parliament (North-Vancouver - Burnaby), former Vice-Chairman, House of Commons Special Committee on Regulatory Reform.

The Council hopes that its report and the conferences will increase public awareness of government regulation of the economy and will provide an impetus for the process of reforming current regulations.

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News Release Communiqué

PR81/16

DO NOT PUBLISH BEFORE
2:00 P.M. (EDST)
JULY 8, 1981

ECONOMIC COUNCIL RELEASES NEW PROJECTIONS FOR CANADIAN ECONOMY

Ottawa - The Economic Council of Canada today released new projections for the economy over the next decade. The Council's quarterly magazine, Au Courant, says that prospects for the Canadian economy have brightened since the Council issued its annual review last fall. The improvement stems from a stronger recovery in the United States this year as well as slightly higher consumer spending and a different pattern for the movement of business inventories.

In its annual review of the Canadian economy, published each fall, the Council makes projections of various economic indicators, based on certain assumptions. This "base case" is then used to try out different policy options to see how various policy choices would affect the economy. The projections published today were prepared in April and are an update of the "base case" used in the 1980 Review, "A Climate of Uncertainty."

The reassessment was undertaken by the Council's Performance and Outlook Group to take account of changes since the last projections were published, including the Reagan economic program, the October 1980 federal budget and National Energy Program, and the publication of the 1980 National Accounts data at the beginning of March, indicating strong performance for the economy in the last quarter of the year.

... more

The new projections extend to 1990 and indicate what performance may be expected if there is no change in current economic policies. They are based on four main assumptions:

° The U.S. economy will experience a mild recovery in 1981, with real growth averaging three per cent a year for the rest of the decade;

° the domestic wellhead price of crude oil will reach $65 a barrel by 1990, the price that consumers pay will rise to $79 a barrel, with world prices climbing to $99 a barrel (delivered at Montreal) by then;

° Uncertainty over the energy program and oil pricing will delay the start of oilsands projects, but pipeline projects will go ahead as scheduled;

° Government financing of established federal-provincial programs will increase in proportion to the growth in nominal gross national expenditure.

Council economists now project a moderate recovery for the Canadian economy over the next three years, but inflation is expected to remain higher throughout the decade than originally projected. Double digit inflation is expected to continue at least until 1988 with wage and price inflation in the range of 11 per cent to 12 per cent over the medium term.

... more

Improved economic growth and higher job creation will make it possible to bring the unemployment rate down sooner than originally projected. Council economists now expect the jobless rate to drop from 7.2 per cent this year to about 5.3 per cent by 1985, rising again to 6.8 per cent by 1990. Labour force growth is expected to remain strong and wage increases are now expected to be higher than before.

Projections of the federal government's fiscal position have "changed dramatically", says the Council's magazine. With the National Energy Program in effect, the federal government could be in a surplus position by the middle of the decade. The position of the provincial governments is not as favorable as originally projected. Although the provinces as a whole will probably continue to have surpluses throughout the decade, they may not be as high as previously expected.

The detailed projections are contained in a paper, "The Medium-Term Outlook: Spring Reassessment," also released today.

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News Release Communiqué

PR81/19

FOR RELEASE ON
OCTOBER 5, 1981

POLLUTION INSURANCE PROPOSED TO COMPENSATE VICTIMS

OTTAWA -- A government-run pollution insurance plan should be created to compensate pollution victims in much the same way as victims of automobile accidents or injuries in the work place, according to a study published today by the Economic Council of Canada.

Author John Z. Swaigen, of the Canadian Environmental Law Association, argues in his study that "the person who has suffered a substantial loss that he was not in a position to prevent or avoid, through no fault of his own, and as a result of the actions of some third party, should not have to undertake expensive legal proceedings or incur great delay to obtain compensation."

This principle is recognized in statutory no-fault automobile insurance plans, workmens' compensation plans and recent proposals for compensating the victims of crime.

Governments have not shown much concern in the past for the consequences of pollution, says the author, but recent major incidents have focused attention on the issue of compensation.

Swaigen, J. Z., Compensation of Pollution Victims in Canada. Ottawa: Supply and Services Canada -- Cat. No. EC22-94/1981E. Price in Canada: $7.95; Other countries: $9.55.

These have included mercury pollution of the English-Wabigoon river system, Lake Erie and Lake St. Clair; the Love Canal case; dioxin contamination in Seveso, Italy; the nuclear power plant accident at Three-Mile Island; mercury pollution in Iraq and Iran, and the Mississauga train derailment.

For the victims of such incidents, says the author, "achieving cessation of cleanup, restoration or replacement of contaminated environments is not the end of the pollution incident."

The only recourse for victims at present is to undertake long and costly litigation. The solution proposed in the study is for the creation of a government-operated compensation fund that would provide "fast, full and fair compensation."

The system might impose a basic pollution levy on all industries, with high-risk industries paying an additional levy. The worst polluters would face surcharges. All industries would be levied, says the author, because past experience has shown that substances deemed to be harmless today are often found to be hazardous in the future.

The question of deterring pollution would not form part of the system, but would be left to the processes of regulation, inspection and criminal law.

Government would also contribute to the fund with certain conditions, and on the assumption that "since society benefits from having products and services that necessarily entail pollution, society should share the cost of compensation for pollution."

The plan is not likely to produce adverse economic effects in Canada, says the author, especially since there is a trend developing throughout the world for the establishment of pollution compensation plans.

The study sets out the possible variations in such a plan. But all have the ultimate goal of redressing the inequitable situation whereby compensation for a person's loss or injury depends on whether he or she is "run over by a car, injured while assisting police to apprehend a criminal, struck down by cancer resulting from occupational exposure or exposed to hazardous substances in the natural environment."

There is no real difference in principle in such cases, the author concludes, and there should be no difference in result.

This report is part of a series of background papers to the Economic Council's major report on government regulation, Reforming Regulation which was published in June 1981.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by Members of the Economic Council of Canada.

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News Release Communiqué

PR82/08

FOR RELEASE ON
April 15, 1982

VOTES AND POLITICS INFLUENCE REGULATIONS

The choice of policies to regulate economic activity in Canada is likely to be dominated by what will appeal most to voters rather than by what works most efficiently, at the least cost.

In a study published today by the Economic Council, it is argued that Canada's regulatory system, like much of public policy, is a creature of the political process rather than the logical creation of economic planners.

In many cases, the authors argue, policy instruments are selected primarily because they appeal to the governing party's potential voters, while imposing costs on another portion of the electorate.

"In short, a strategy that seeks to magnify the gain and depreciate the pain will be influential in instrument choice."

The study examines a number of public policies and mechanisms to test this axiom. They include the use of Royal Commissions

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M. J. Trebilcock, R. S. Prichard, D. G. Hartle and D. N. Dewees, The Choice of Governing Instrument. Ottawa: Supply and Services Canada -- Cat. No. EC22-101/1982E. Price in Canada: $8.95; other countries: $10.75.

and Task Forces; methods of taxation and tax expenditures; use of Crown Corporations; and the choice of instruments for regulation in the fields of environmental protection and agriculture.

Taxation is a prime example, the authors say, of how politicians follow the old adage that "What the eye doesn't see the heart doesn't grieve about."

The manufacturer's sales tax is cited as an instrument that "is probably the worst major tax in existence in this country, from a technical point of view," but which continues to be used despite its economic inefficiency.

From the political view, it is quite efficient, say the authors, because the tax, which raises a substantial proportion of all federal revenues, is buried in the prices paid by retailers.

Most regulations are arrived at for similar reasons, the authors maintain. Therefore, any effort to reform regulations which relies solely on arguments of economic efficiency is unlikely to succeed.

"Asking how we can achieve superior regulation is equivalent to asking how we can achieve a better system of politics," the authors state.

Changes such as the adoption of proportional representation, Senate reform, new rules on party financing, subsidization of small interest groups, freedom of information legislation, can all help bring about a change in the political climate that could make the process of policy selection more economically efficient.

In the meantime, the authors say, economists can improve the process of political decision-making by increasing and improving the information and analysis available to the public.

Politicians, the authors conclude, can and do ignore economists but they "cannot, however, easily ignore voters armed with relevant information."

This study was prepared as part of the Economic Council's examination of government regulation in Canada. The final report Reforming Regulation was published last year.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by members of the Economic Council of Canada.

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News Release Communiqué

PR82/15

FOR RELEASE ON
August 4, 1982

IMPORTANT ROLE FOR EQUALIZATION IN CANADA'S FEDERAL SYSTEM

OTTAWA -- "A continuing scheme of federal-provincial equalization payments has become an article of faith in political circles .... Yet, however apparent it may seem to constitutional experts that a compact among regions must include provisions guaranteeing equalization to reduce regional disparities, among some economists there is a growing ground swell of opposition."

In a study prepared for the Economic Council of Canada, Queen's University economists Robin W. Boadway and Frank R. Flatters present a thorough analysis of "the appropriate role of equalization payments, if any, in a federal economy such as that of Canada."

And they find that, on both equity and efficiency grounds, there is indeed a case for equalization payments, at least "of a particular sort."

The study takes as its starting point the fundamental conclusion that the goal of equalization should be to achieve equity among Canadians wherever they lived in the country and the highest possible degree of national economic efficiency. The goal of equity is in line with the commonly accepted objective of

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Robin Boadway and Frank Flatters, Equalization in a Federal State: An Economic Analysis. Ottawa: Supply and Services Canada -- Cat. No. EC22-105/1982E. Price in Canada: $6.95; other countries: $8.35.

government in Canada to reduce inequalities in real income between people and to ensure that individuals in similar economic circumstances are treated in the same way wherever they live in Canada.

The study concludes that an equalization program involving transfers between governments is a necessary complement to the individual system of taxes and transfers because the latter is unavoidably based essentially on the nominal or "market" income of individuals. Such an approach, however, fails to take account of the net fiscal benefits of people in different provinces - that is, the goods and services they receive from provincial governments in many forms in relation to their cost through the imposition of various provincial levies.

As a result of the impact of these fiscal benefits, a Canadian living in one province with the same market income as a fellow citizen living in another province can have a very different real income when the net fiscal benefits provided by their respective provincial governments are taken into account. If an appropriate degree of equity is to be achieved in these circumstances, a system of intergovernmental transfers is required to reduce or eliminate such differences.

Under the broad concept of equity that is generally accepted, such differences in the well-being of Canadians resulting from variations in net fiscal benefits available from various provincial governments should, in the view of the authors, be largely eliminated - as would be essentially the case in a unitary state. Such a goal, however, must be modified to take account of the provisions of the Constitution, which appear to confer certain property rights on the provinces and their residents with respect to natural resources. The authors conclude, therefore, that only a portion of the revenues received by provincial governments from natural resources, and only that

amount that was passed on to provincial residents as benefits in the form of various goods and services or tax relief, should be subject to equalization. Resource income channelled into savings, such as Alberta's Heritage Fund, should not be included. The balance would be treated, in effect, as if it were distributed to provincial residents in the form of income and made subject to federal tax.

While equity would appear to dictate only the partial equalization of provincial natural resource revenues because of the overriding considerations established under the Constitution, it is the authors' judgment that full equalization of such revenues is in fact required from the point of view of national economic efficiency. Although some have argued that equalization payments impede necessary adjustments in the economy that otherwise would take place automatically in response to market forces (such as the migration of workers within the country), the study arrives at the very opposite view.

The authors conclude that while there might be some conflict between the criteria of equity and economic efficiency for an interprovincial equalization program, there is nonetheless "an important role to be played by a program of equalization grants in our federal system."

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by Members of the Economic Council of Canada.

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News Release Communiqué

PR82/16

FOR RELEASE ON
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R&D EXPENDITURES TARGET NOT THE ANSWER

OTTAWA -- Research and development is seen by many as the most promising route to stimulating the future growth of Canada's economy.

The federal government recently confirmed its belief in this approach by announcing a policy that sees Canada's expenditures on R&D reach the target of 1.5 per cent of gross national product by 1985 - at an annual cost of about $1 billion.

However, in a study prepared for the Economic Council of Canada, Queen's University economists Kristian S. Palda and Bohumir Pazderka disagree with this approach to R&D policy.

Setting out to determine whether a 1.5 per cent global target is a good way to stimulate research and development, and productivity growth, the authors in fact conclude that the establishment of a general target for R&D expenditures is an exercise of doubtful value.

The approach they recommend to stimulate innovation and research in Canada is that the government consider each industry individually. This is necessary, they argue,

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Kristian S. Palda and Bohumir Pazderka, Approaches to an International Comparison of Canada's R&D Expenditures. Ottawa: Supply and Services Canada, Cat. No. EC22-107/1982E. Price in Canada: $5.95; Other countries: $7.15.

because while some industries may benefit from government programs to promote R&D, others will in fact be adversely affected by such a policy.

The study also shows that the grants or tax concessions to stimulate research and development are not equally effective in all industries.

In addition, a comparison made between R&D in Canada and that in other industrialized countries shows that some important Canadian industries are doing better than expected.

Contending that government policy to stimulate R&D should concentrate on those industries where a true shortfall is identified, the authors conclude with their belief that "an aggregate, economy-wide target of research intensity is neither valid nor useful."

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by Members of the Economic Council of Canada.

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News Release

Communiqué

PR82/22

DO NOT PUBLISH BEFORE
1:00 p.m. (EST)
Tuesday, November 30, 1982

BROAD CHANGES IN GOVERNMENT FINANCING ROLE RECOMMENDED

OTTAWA -- The Economic Council of Canada is calling for broad changes in the government role in financing housing, business, agriculture and other sectors.

The Council recommends in a report released today that the federal and provincial governments reduce some lending activities while introducing new forms of financing to meet other needs.

Federal and provincial loans and loan guarantees - totalling $46 billion outstanding in 1980 - can be effective in curing shortcomings in the nation's financial markets, says the report. For example, private financial institutions may not be serving some potential customers for a variety of reasons.

But if governments intervene when there is no obvious deficiency in financial markets, says the Council, they have trouble meeting their social and development goals, and the costs can be high. Action in one part of the economy can have an impact on other areas - raising or lowering interest rates, for instance.

So the report proposes a number of steps ranging from new types of mortgages to a gradual withdrawal from direct loans for exports in an effort to improve government financing activities.

Governments and legislators should also exercise tighter control of public financing agencies, which would include a review, every five years, of their aims and operations.

Government dominates export financing and plays a major part in financing agriculture and housing. It is the fourth largest institution in business finance.

The Council report, called Intervention and Efficiency, says governments should withdraw, as much as possible, from areas where the private sector contributes to the achievement of government goals.

For instance, the Council says the Canada Mortgage and Housing Corporation should gradually pull out of the direct insurance field and the Export Development Corporation should reduce its role in direct financing for Canadian sales abroad while continuing to provide other forms of assistance.

Occasionally, too, government funds may not fill a real need.

So the report says the time has come to reassess government loans and guarantees to adapt them to "the circumstances and the needs of the 1980s." Government aid has done some good in the past but there is now a need to take a fresh look at this assistance.

This might mean shifting from direct loans and loan subsidies to other financing methods such as tax incentives, credit insurance or grants. Governments would still fill a gap left by private financial institutions - in some cases, this would mean direct loans.

Simulations carried out by the Council show that subsidized loans to one sector can have an undesirable impact on other sectors. For example, subsidized loans to farmers dampen

residential construction and manufacturing activity partly because the subsidies channel money away from these industries.

At the same time, these subsidies do not seem as effective as other measures in achieving the objectives governments have set.

Public financing agencies often function with unclear goals and without clear financial guidelines, the Council says. These goals and operations should be reviewed every five years.

The report also recommends these agencies periodically sell off part of their loan portfolios to recoup some of the money they have spent and to show how wisely they have been using public money.

There is a need for better financial reporting by public agencies, says the Council, and these public bodies should also be required to establish business plans outlining objectives, strategies and costs for coming years.

In general, the report urges tighter control over public agencies and their activities.

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News Release Communiqué

PR82/23

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Tuesday, November 30, 1982

MORTGAGE PLAN PROPOSED TO EASE PLIGHT OF HOMEOWNERS AND FARMERS

OTTAWA -- Governments should promote a new indexed mortgage plan to ease the impact of inflation and bouncing interest rates on homeowners and farmers, says the Economic Council of Canada.

The indexed mortgage, says the Council in a report released today, would allow buyers to make much lower monthly payments initially than under conventional mortgages in inflationary times.

Homeowners and farmers would get this relief today at the price of higher payments later should inflation continue. But these higher payments would be consistent with higher incomes and house values.

The indexed mortgage would be financed by private institutions and promoted by governments.

The proposal is contained in a Council report aimed at improving federal and provincial government financing in such sectors as housing, agriculture, business and exports.

Generally, the Council report - Intervention and Efficiency - recommends governments cut some direct lending while introducing new financing methods or increasing activity in other areas.

Among other measures, the Council urges governments to use such methods as tax incentives rather than direct loans to encourage housing construction and farm development or expansion.

The Council devised its indexed mortgage plan to counter the effect of inflation, which can drive houses out of reach of home-buyers and confront farmers with serious cash problems.

For example, only part of a farmer's accrued income is in cash; the rest is a capital gain on the rising value of his land. But with rising mortgage rates in inflationary times, he is short of cash to pay higher rates.

Along with helping home-buyers and farmers, the indexed mortgage would restore the long-term mortgage to the housing market. This would add stability for buyers, builders and lenders.

Unlike the proposals by former Finance Minister Allan MacEachen in the June 28 federal budget, the Council's mortgage plan would not require major tax changes.

Mortgages would be initiated by banks or trust companies, which would sell them to registered retirement savings and tax-exempt pension funds.

Despite the better monthly payment plan initially, there could still be some defaults by borrowers, the Council acknowledges, but that is true with all mortgage systems. That calls for careful screening of borrowers by lending agencies.

The advantage of the indexed mortgage is that it is flexible, adjusting to inflation and price stability the way an all-weather tire does to winter and summer driving conditions.

Of course, borrowers would prefer the long-term, fixed-rate mortgage of the 1960s to an indexed system, the Council says. But buyers today can't get long-term mortgages on these terms.

To demonstrate how an indexed mortgage would work, the Council compared a standard mortgage at a 7 per cent interest rate and no inflation, a conventional mortgage at 17.7 per cent interest with 10 per cent inflation, and a fully indexed mortgage at a basic rate of 7 per cent interest in a period of 10 per cent inflation.

A borrower starting out at a salary of $25,000 a year and buying a $60,000 home with a 15 per cent down payment would start paying $441 a month in principal, interest and taxes under the standard, no-inflation plan. Property taxes would begin at $1,000 a year.

In the inflation case with a 17.7 per cent interest rate, he would begin paying $828 a month for the $60,000 home. But under the indexed mortgage his initial payments would be only $449, almost as low as the no-inflation example.

Monthly payments remain the same throughout the no-inflation, fixed-rate mortgage while they rise under both the other examples because of the impact of inflation.

Monthly payments under the indexed mortgage would actually take a lower share of personal income after 25 years than they did at the outset because salaries would have risen too, assuming that inflation continues. That share falls to 11.9 per cent in the final year from 19.2 per cent in the first year.

Governments should encourage the introduction of these new mortgages, and the Canada Mortgage and Housing Corporation should temporarily offer direct insurance of such mortgages, the Council says.

A similar mortgage plan would help farmers who are discouraged from buying property or expanding because of the heavy cash outlay. These farmers would reduce their monthly payments in the early stages when they most need cash.

The report says the private sector has taken an increasingly large role in financing housing and agriculture, and governments should try to pull out of the direct lending as much as possible. However, there is still a place for direct loans where people can't get them from private sources at competitive terms.

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News Release

Communiqué

PR82/24

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COUNCIL URGES NEW INVESTMENT PROPOSAL

OTTAWA -- Governments should bring in new measures to stimulate investment in shares of small and medium-sized companies, says the Economic Council of Canada.

Such investments would strengthen these firms and lessen their high debt loads, says the Council in a report released today. Recent economic developments underlined the urgency of such measures.

For these companies, at least, equity financing is better than direct government loans because they are already heavily burdened with debt.

The Council also proposes that government be more selective in direct lending for exports.

Instead, the federal Export Development Corporation should move increasingly into credit reinsurance and guarantees to encourage private institutions to participate more in export financing.

Private financial institutions already dominate short-term lending for exports, says the Council report, and there seems little reason why they should not take a growing share of long-term financing.

The Council report, called Intervention and Efficiency, generally recommends governments pull out of areas where the private sector is already active and contribute to the achievement of government social and economic objectives.

On the other hand, the report urges governments to step into gaps left by private financing and to encourage new types of financing.

Among other sectors, the report looks at government efforts in financing business domestically and in the export field.

The federal EDC dominates the export financing field with $5.5 billion in loans and credit insurance outstanding at the end of 1980. There were a few other federal and provincial agencies also involved.

However, the Council found that Canada lags behind other countries in supporting exports. EDC support varies between 5 and 6 per cent of Canadian exports annually while comparable figures in other countries are 39 to 48 per cent for France, 38 to 45 per cent for Britain, and 25 to 49 per cent for Japan.

As for domestic business, there were 28 federal and provincial agencies, boards and departmental divisions providing loans, investments and guarantees totalling $6.5 billion outstanding in 1980.

When looking for more financing, smaller companies tend to rely more on short-term loans, says the Council, while larger firms turn more to share issues and debentures.

The low equity base of small and medium-sized firms is not a new problem, but recent economic developments "have drawn attention to the urgency of reducing this weakness of corporate financial structure."

Without a solid equity base, these companies have to turn to short-term loans to survive bad economic times.

Companies may have a weak equity base because owners may be reluctant to lose some control over their firms. Among other things, they may also face regulations or practices by governments and some financial institutions which discourage this kind of investment.

Governments could change the income tax system to make investment in shares more attractive or alter regulations governing major financial institutions, the report says.

They could also step in to buy shares directly, with limits placed on government involvement in the firm's management.

The Council also says federal and provincial governments should ensure their departments and agencies follow a consistent industrial strategy because some current programs may have a tendency to cancel each other out.

In addition, Canadian governments should avoid outbidding each other for industry.

In the export field, says the report, private lenders have dominated short-term lending. But they don't have much of a role in long-term financing, possibly because of governmental practices. Banks have little say in long-term lending decisions by the EDC.

Government aid to individual exporting companies should be temporary and not permanent, the Council says. Noting that 16 firms received half of the 415 loans handed out by the EDC between 1969 and 1980, the report says:

"One is rather tempted to believe that, for these firms, the subsidy has become a form of permanent assistance."

While subsidies have drawbacks, the Council says Canada cannot act alone in eliminating them and must continue pressing for an international agreement to further limit subsidized export credit.

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News Release

Communiqué

PR82/25

FOR RELEASE ON
December 15, 1982

MIGRATION INFLUENCED BY FISCAL PROGRAMS

OTTAWA -- What makes people move to another place? A better job? Improved unemployment insurance benefits? The lure of oil revenues?

Some economists say that Canadians move to richer areas from economically depressed regions almost solely because of jobs, but a study carried out for the Economic Council of Canada takes a different view.

This study, prepared by economists Stanley Winer of Carleton University and Denis Gauthier of Queen's University, concludes that government measures, such as unemployment insurance benefits, and the tax system also influence decisions on whether to migrate.

Jobs are certainly a potent magnet to migrants, the authors say, but government fiscal measures were almost as important in drawing poor Ontario residents to Alberta in 1977. They had less impact on the better-off migrants.

Stanley Winer and Denis Gauthier, Internal Migration and Fiscal Structure: An Econometric Study of the Determinants of Interprovincial Migration in Canada. Ottawa: Supply and Services Canada, 1982 (Cat. No. EC22-109/1982E; $8.95 in Canada, $10.75 in other countries).

The report says many people flooded into Alberta in the 1970s because they believed growing resource revenues meant they would get public services at lower cost there than at home. Oil revenues would hold down taxes.

Apart from those who moved to Alberta to get jobs in 1977, the authors say there were many others who were influenced by the rising oil revenues.

If natural resource revenues had remained at 1971 levels in real terms, say Winer and Gauthier, there would have been 10 to 13 per cent fewer migrants - both rich and poor - to Alberta in 1977.

Improved unemployment insurance benefits in the 1970s were a powerful force in reducing the flow of people out of the Atlantic region and in encouraging others to go to British Columbia.

The federal system of equalization payments, aimed at reducing the gap between rich and poor provinces, is another factor affecting decisions to move or stay.

Some economists say that equalization payments hamper efficient development of the economy, while others state that they yield real benefits.

The migration study does not settle the question of fairness and efficient economic development, but it does present evidence that government fiscal measures do have an impact on migration.

The pattern of migration between provinces changed between 1968 and 1977, the period covered in the study. The Atlantic provinces switched from losing people to gaining them, in overall terms. Migration into Ontario declined, while people poured into Alberta.

Analyzing migration series from family allowance and tax data, Winer and Gauthier indicate that changes to the Unemployment Insurance Act since 1970 were an important element in reducing the stream of migrants out of the economically hard-hit Atlantic region.

As a result of these changes, applicants find it easier to qualify for unemployment insurance benefits, and for longer periods, in regions where the jobless rate exceeds the national average.

Without these changes, the number of people moving to Ontario from the Atlantic provinces would have been up to 42 per cent higher than it was in 1977, says the study.

A generous unemployment insurance system is also one of the attractions for people considering a move to British Columbia, say the authors. British Columbia is usually considered a wealthy province, but it has relatively high unemployment rates. People may be attracted to the province because of high-paid jobs there, knowing that unemployment insurance will act as a safety net.

Increased equalization payments in the early 1970s also helped to restrain some people, particularly in the low-income groups, from moving to rich western provinces such as Alberta and British Columbia. The number of poorer migrants to those provinces from the Atlantic region was up to 16 per cent lower in 1977 than it would have been without these increased payments.

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The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by Members of the Economic Council of Canada.

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News Release Communiqué

PR83/1

FOR RELEASE ON
January 25, 1983

TIMELY LOOK AT JOB-HUNTING

OTTAWA -- Taking time to search for jobs has paid dividends for many Canadians.

A study, released today by the Economic Council of Canada, estimates that more than 40 per cent of unemployed job-seekers in the 1973-78 period actually wound up with better wages than they had before.

With time and the aid of unemployment insurance benefits, many people were able to look for and secure higher-paid positions.

"The results must be interpreted in light of the dramatic change in the labour market situation since 1978," says Abrar Hasan, co-author of the study with Surendra Gera. Both are Council economists.

Dr. David Slater, Council Chairman, says the pay-off of a long and diligent search for jobs will obviously be greater in normal economic conditions than at a time of high unemployment.

But the Council study shows, he says, that careful job-hunting does yield encouraging results for some people.

A. Hasan and S. Gera, Job Search Behaviour, Unemployment, and Wage Gain in Canadian Labour Markets. Ottawa: Supply and Services Canada, Cat. No. EC22-110/1982E. Price in Canada: $7.95; other countries: $9.55.

The study says about one out of every 10 Canadians was looking for a job in 1977 at an overall cost in excess of $1 billion.

Some search on the job, others leave their jobs and then search. The bulk, of course, are persons who have lost jobs.

Interestingly, voluntary job-leaving was about twice as high in Canada as in the United States, probably because of the structure of the Canadian economy, seasonal jobs, and differences in the unemployment insurance system.

Job-seeking while unemployed was particularly productive for men in the 1973-78 period, say the authors.

Almost half the men and women who quit their jobs got new positions at a higher wage, but increases were greater for men. A smaller percentage of those who were laid off found better-paying jobs.

The main reason why men did better from a wage standpoint, say Hasan and Gera, is that a larger proportion of women than men got jobs with little chance of advancement and little variety in wages.

So the authors urge steps to break down or lower barriers between what really amounts to two separate job markets - male and female. Men are active in the "primary" market where job opportunities and advancement are broader than in the "secondary" market where most women are involved.

Removing barriers means looking at institutional and legal obstacles, the study says.

In addition, the authors say governments should try to improve the effectiveness of public employment agencies in matching people with jobs. There should also be an attempt to cut down voluntary job-leaving which is a drain on public funds in times of job shortages.

The Hasan-Gera study is based on Statistics Canada's labour force figures for 1977 and a federal Industry Department survey of more than 12,000 unemployed persons dealing with their employment/unemployment records between 1973 and 1978.

For many jobless Canadians in the mid-1970s, waiting paid off in higher wages. In overall terms, an unemployed worker could count on finding a higher-paying job for each additional week of search for up to 15 weeks of unemployment.

But after 15 weeks, female workers could expect a gradual decline in the wages they could settle for. Men could look for continued increases, on average.

Nor surprisingly, the study found that an increase in unemployment has a dampening effect on wage gains.

Government-run public employment services are heavily-used by unemployed job-seekers, ranking just behind direct contact with employers as a search method.

But the authors found that these public agencies ranked only fourth in success in finding a job among search methods. These agencies seem to have a poor image in the eyes of employers and need to be made more effective.

The authors' research indicates that job-seekers pursue a particular job search strategy: they begin with a floor in mind for the wages they will accept. As their period of unemployment stretches on, this floor tends to drop, reflecting job-seekers' adjustments to labour market realities. This adjustment, however, is generally sluggish.

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RISING LIVING STANDARDS THREATENED

OTTAWA -- Rising Canadian living standards are threatened and that demands further action in such areas as technical advance and international trade, says the Economic Council of Canada.

Federal and provincial governments, says a Council report released today, should extend their technology policies to include the speedier spread of foreign and domestic technical innovations throughout Canadian industry. Delays in introducing technical changes have slowed growth in productivity, commonly defined as output per person employed.

Ottawa should also continue pursuing freer world trade because greater trade raises living standards, both by expanding consumer choice and by improving industrial efficiency, says the report. The adjustment costs aren't as severe as often claimed.

Productivity growth used to be a major contributor to increases in Canadian living standards. Productivity is still very high but it has stopped growing. Growth was zero, on average, between 1973 and 1981.

Growing trade can also contribute to rising incomes.

The report, entitled The Bottom Line: Technology, Trade, and Income Growth, says growth in living standards has dropped to a

1.5 per cent annual average in the 1973-81 period from three per cent a year in the previous two decades. Rising living standards are measured by the annual rate of increase in real gross national product per person.

The productivity slowdown is a key factor in this decline.

The Council report looks at technological change and how improvement might stimulate productivity again. And it evaluates arguments for and against a faster lowering of trade barriers.

If the report's recommendations are carried out, the Council says it is cautiously optimistic about an increase in living standards in coming years. The proposals should be implemented for permanent growth, although the report acknowledges there is likely to be a strong but temporary productivity increase as the economy recovers from the recession.

It is not correct to blame the productivity slump on workers slacking off; evidence shows that has not been a significant factor. Economists have yet to find a full explanation for the slowdown. Productivity is more heavily influenced by technical advance, capital accumulation and industrial relations as well as other factors.

To illustrate the value of technical advance, the Council says that a one per cent annual improvement could enable a grandson to become twice as well off as his grandfather in the same job and with the same amount of effort.

Public policy on technical change centres almost exclusively on manufacturing and research and development, says the Council, but that overlooks well over half the economy as well as other vital aspects of technical change.

Little attention is paid to boosting productivity in the service sector -- transportation, retail trade, education, medical care, and others -- and such industries as construction.

"This is tantamount to trying to make a jet plane fly better by overhauling only one of its engines," the report says.

Formal domestic research and development gets a lot of public attention, but a bigger problem may be the slow spread of innovations developed on the shop floor and in the office or picked up from foreign companies, the Council says. This requires federal and provincial government help.

The Council endorses the government's overall spending target for research of 1.5 per cent of gross national product by 1985, but says this should be broken down by industry as some sectors need it more than others.

On the trade side, the Council report challenges claims that lower tariff barriers are gradually destroying Canadian manufacturing. There is evidence that some industries have suffered from increased foreign competition but others have gained strength.

Reducing trade restrictions has given birth to new companies and helped others to expand while killing few firms. "The upshot of all this is that Canada is a far cry from de-industrialization."

But there has to be some protection for workers thrown out of jobs by tough foreign competition. The Council urges the government expand its aid programs for these workers.

Five of the 20 Council members have written comments or dissents questioning or disagreeing with certain elements of the report.

These include Kalmen Kaplansky, Paul-Émilien Dalpé, Shirley Goldenberg, T. Earle Hickey and Pierre Lortie.

Lortie, president of the Montreal Stock Exchange, endorses certain findings of the report but says it should have taken a broader look at the productivity problem by deeper analysis of such issues as taxation and social programs. He also takes issue with specific recommendations on research and development and calls for additional practical suggestions.

Kaplansky, senior fellow of the Human Rights Centre at the University of Ottawa, says the report has not paid "sufficient attention to the human element" -- to industrial relations and programs to help Canadians affected by technical change. Goldenberg, a McGill University professor, and Dalpé, a former Quebec labour leader, support Kaplansky's comments.

Hickey, former finance minister of Prince Edward Island, dissented from a recommendation urging increased aid for workers losing jobs because of tougher competition. It's hard to see that these workers would be worse off than other jobless Canadians, he says, and there are already extensive welfare and unemployment programs.

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A BROADER APPROACH TO TECHNICAL CHANGE

OTTAWA -- The Economic Council is calling for a broader approach to Canada's serious problem of technical change and productivity.

Public policy on technical change is too narrowly focused on manufacturing and domestic research and development, says the Council in a report released today.

The report, called The Bottom Line: Technology, Trade, and Income Growth, says this neglects the large nonmanufacturing sector of the economy and the vast bulk of innovations picked up from abroad or developed on the assembly line or shop floor or office.

Productivity, commonly defined as output per person employed, is very high but has flattened out at virtually no increase since 1973 and that has an impact on whether Canadians can expect their real incomes to go up. Technical advance is one of the key elements in rising productivity.

While domestic research should be boosted and the manufacturing sector helped, governments should take steps to promote faster distribution of technical advances of all kinds throughout all sectors of the economy, the Council says.

A few of the report's highlights:

. About 99 per cent of new technology in Canada comes from abroad and multinational corporations are an important channel. For this reason, obstacles to technology transfer from foreign multinationals to subsidiaries could hurt this country.

. A range of technical innovations studied by the Council were introduced abroad seven to 31 years before entering Canada.

. Computers appeared in British Columbia eight years after Ontario and shopping centres spread to the Atlantic provinces 16 years after Alberta.

. Several federal technology assistance programs are flawed because of failure to properly work out whether projects are economically worthwhile.

To reduce delays in spreading technical innovations throughout the economy, the Council recommends federal and provincial governments should help spread information on new technology; the Patent Office should promote innovations; and the Foreign Investment Review Agency should make new technology and improved productivity a higher priority in judging applications for investment in this country.

The Council also endorses the government target for research and development of 1.5 per cent of gross national product by 1985, but urges separate goals be established industry by industry. The gross national product is the sum of goods and services produced.

The report underlines the importance of the nonmanufacturing sector and ordinary technical innovations because both offer many overlooked opportunities for improvement in productivity.

The services and nontrading sectors, ranging from hospitals to the construction industry, together take a larger share of the gross national product than does manufacturing. Services alone account for 50 per cent more than goods industries such as manufacturing. So there is a better chance of improving productivity nationally if there is a concerted drive on all sectors of the economy.

Applied research and development is important, but Canada depends heavily on new techniques, processes and other technical innovations imported from abroad or developed in the normal course of doing business in this country.

A Council survey shows that the average delay in introducing new processes and products developed abroad in five Canadian industries ranged between seven and nine years. In other words, Canadian firms started using these innovations years after they were first marketed by the foreign innovator.

And, or course, Canadians are slow in spreading technology across the country -- it took 10 years for roof trusses to filter throughout Canada.

Foreign technology can be acquired directly by Canadian firms or through transfers from foreign multinationals to Canadian subsidiaries. The Council says multinationals are the most-used route for formal technology transfers.

On the other hand, foreign-owned subsidiaries are less active in domestic research and development than Canadian-owned companies.

Canada ranks lower than many other Western countries in research spending as a proportion of gross national product. But that may be misleading because some Canadian industries, such as mining, outperform similar groups in other nations.

Before handing out research funds, governments should be sure that benefits to taxpayers justify the costs, the report says. They should also be sure subsidies are stimulating research that would not otherwise be carried out by private organizations.

Based on these standards, several federal programs fall short, the report suggests. Among these are the Industry Department's Enterprise Development Program, the Defence Department's Defence Industry Productivity Program, the National Research Council's Industrial Research Assistance Program and two smaller NRC efforts.

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COUNCIL WARNS AGAINST CREEPING PROTECTIONISM

OTTAWA -- Lower trade barriers pose some problems for Canadians but the Economic Council judges the payoffs in economic growth and rising incomes outweigh the drawbacks.

Freer trade does throw some people out of work, at least for a time, says the Council in a report made public today, but increased protectionism would lower living standards in Canada and throughout the trading world.

The Council report, The Bottom Line: Technology, Trade, and Income Growth, says the government should resist pressure to increase protectionism, and remain committed to current international plans to gradually cut tariffs and other trade obstacles.

But the report says an immediate end to all trade restrictions during the current recession would be too severe. "Nobody is advocating that free trade be implemented overnight; thus massive dislocation and job displacement are not likely."

However, if current international tariff reductions go ahead as planned, "layoffs that might occur would be small, when compared with the total labour force in the manufacturing sector."

Once the recession is clearly over, the government should consider "accelerating the process of reduction of both Canadian and foreign tariffs and nontariff barriers."

For those who are laid off because of import competition, the government should broaden assistance, the Council says. This should include direct income payments and help in finding new jobs.

The Council report looks at technology and productivity as well as trade. Both increased trade and rising productivity contribute to higher living standards for Canadians.

Canada's exports have risen faster in the last 20 years than overall gross national product -- the sum of goods and services produced. Helped by the U.S.-Canada Auto Pact, a greater share of Canadian exports now go to the United States than 20 years ago.

More liberal trade policies tend to increase specialization, generate economies of scale, and promote more competition. That leads to higher real incomes for Canadians.

But many fear that Canada's manufacturing sector will shrink if barriers are lowered further and foreign competition increases. They frequently point to the growing trade deficit in manufactured products.

The Council report takes issue with this view. While the deficit in manufactured products is rising, "its size relative to the total two-way trade in such products is much smaller today than it used to be."

While manufactured imports have taken a growing share of the Canadian market in the last 20 years, exports have risen just as fast in relation to overall Canadian factory production.

Looking at the issue in more detail, the Council studied 130 groups of manufacturing items and found that there was improved performance against foreign competition in 26 cases, a decline in 40 instances, and no change in the remaining 64 items. But overall Canadian manufacturing lost no ground in that period, indicating that the 26 gainers totally offset the 40 losers.

In fact, most gains or losses could not be blamed on stronger or weaker foreign competition in those product lines, the report says. What is happening is that Canadian industry is tending to specialize more.

Examining the high-technology industries, the Council found that only two out of 14 product categories actually improved their position while seven fell back. Yet "shipments of the two gaining categories were more valuable in 1980 than those of all the losing categories put together."

Still, there is no doubt that Canadian industry is forced to adjust when tariff and nontariff barriers are cut. But the adjustment process is not as severe as some may fear.

Between 1970 and 1979, 38 of 88 companies in the average industry went out of business. But 26 new firms were born in this period. The main gainers and losers were small companies.

The average size for 141 industries was 88 firms in 1970, but the Council found that this average fell to 75 in 1979. However, the surviving companies were consistently larger, so the industries shrank much less than the number of firms would indicate.

Industries can decline either because existing firms go out of business or fewer new firms are born. The report says that the main way declining industries adjusted was through a slowdown in

the birth rate of new firms rather than the death of existing companies. Fast-growing industries had a death rate that was equal to the manufacturing average but a much higher birth rate.

While the adjustment to freer trade is tough on those who lose jobs, the report found that the adjustment process isn't as severe as commonly thought. An Industry Department survey of workers in the textile, clothing and electronic products industries found that 80 per cent of workers laid off in the 1974-76 period were still in the labour force in 1977 and 80 per cent of these had found jobs.

In all three industries, a majority found jobs in other industries or occupations. Those who were hired after layoffs usually got jobs quickly.

These findings, says the Council, support those who see overall benefits to freer trade.

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TWENTIETH ANNUAL REVIEW HIGHLIGHTS

OTTAWA -- Highlights of On the Mend, the Twentieth Annual Review of the Economic Council of Canada:

- Economic growth in the next two years is expected to average more than 4 per cent but will then tail off to less than 3 per cent assuming there are no major changes in policy or other factors.

- Inflation is likely to range between 5 and 6 per cent in the same period while unemployment will probably remain in double digits.

- The Council has set a package of specific targets for productivity growth, employment, inflation, savings and social programs which would require economic growth to average 4.5 to 5 per cent a year.

- These targets are not projections but are intended to stimulate Canadians to achieve the country's economic potential. Changes in attitudes and policies will be required to promote these goals.

- The federal and provincial governments should work out a monitoring system to help keep inflation under control. The Council prefers this approach to stricter controls.

- To achieve a more flexible economy, new competition legislation should be introduced along with reforms in regulated pricing in the energy and agriculture sectors.

- Unemployment and job creation funds might be integrated and governments should consider a job voucher system to subsidize employers hiring jobless workers.

- Savings incentives should be maintained.

- As a medium-term objective, the Council recommends a substantial reduction of the federal deficit as a proportion of gross national product. Other governments should control spending too.

- Exemptions for wholly dependent children should be converted to child tax credits which are probably of more help to the poor.

- Governments should look at ways of expanding the pension rights of women.

- Shelter allowances should be examined as the main method to help low-income tenants.

- Canada's auto and auto parts industry should look for ways other than trade barriers to encourage production.

- The basic structure of the social and health programs is sound and the universality of medicare should be maintained.

- The delivery, quality and cost of these social and health services should be improved. As one example, wider use of

paramedic and preventive health care programs might improve service and contain health costs.

- The social assistance system should be overhauled so that welfare recipients can accept work without losing financially because of the tax system.

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NEW ECONOMIC TARGETS PROPOSED

OTTAWA -- The Economic Council of Canada is marking its 20th anniversary with a new set of economic targets designed to spur Canadians to boost economic growth and cut unemployment sharply over the next five years.

These targets are "benchmarks for the future against which governments and public opinion can measure economic performance," says the Council in its Annual Review of the economy released today. They are medium-term goals pointing to Canada's economic potential and not projections.

The Council's goals include productivity growth of 1.5 to 2 per cent a year; employment growth of 2 to 3 per cent annually so as to reduce unemployment rates to 6 to 8 per cent; the inflation rate maintained in the 4-6 per cent range; high savings rates so the inflow of foreign capital is limited to 2 to 3 per cent a year; and maintaining social services.

To reach these levels, the economy will have to grow at an annual rates of more than 4.5 per cent, which is above current projections for the five-year period. Generally, the targets are more ambitious than recent economic performance and current projections.

The Council says there is no reason why Canadians should settle for second-best in economic performance, falling well below the nation's true potential. The targets can lead to improvements if they encourage Canadians to aim higher.

Even if the country falls short of these goals, the Annual Review says the economic outlook over the next few years is much brighter than it was a year ago. "The worst is over," the Council says in reviewing the recent recession as well as economic development over its 20-year history. This outlook is reflected in the title of the Review - On the Mend.

The biggest remaining problem is the unemployment rate which is expected to stay above 10 per cent for the next five years assuming policies remain unchanged. The need to put people back to work is the prime reason why the Council is proposing the economic goals and urging greater co-operative effort by Canadians to increase economic growth.

Current projections, outlined in the Annual Review, reflect what the Council expects will happen over the medium term assuming there are no major changes in policy. The highlights of the basic projections are:

- Real economic growth will average over 4 per cent a year to 1985, slowing to less than 3 per cent through 1987.

- The unemployment rate will drop gradually to about 11 per cent in 1985 and remain at about that level through 1987.

- The inflation rate, as measured by the consumer price index, will average 5 per cent a year through to 1985, climbing gradually to more than 6 per cent in 1987. Foreign pressures, particularly decontrol of natural gas prices in the United States, will slowly push up Canadian prices.

These basic projections depend on a set of working assumptions, including an assessment of current monetary, fiscal and energy policies, the outlook for the U.S. economy, and prospects for other major trading partners. These are set out explicitly in the report and supporting papers.

The Council expects a healthy U.S. recovery and a generally stable economic outlook elsewhere, but offers alternative projections if circumstances change.

For example, a stronger U.S. recovery, a greater increase in domestic wages, and a lower savings rate could add an extra percentage point in real economic growth annually between 1984 and 1987. That would reduce unemployment rates to less than 10 per cent. A weaker U.S. recovery, less wage growth, and a higher savings rate could reduce real growth 1 percentage point a year in the same period compared to the base case.

Solving the unemployment problem in this decade is of "foremost importance," the Council says. But this should not be done by tackling unemployment alone because such a policy could distort the economy.

Instead, the Twentieth Annual Review looks back to an approach used in some earlier Annual Reviews and proposes a package of targets and policies for the medium term. To get the jobless rate down to 6-8 per cent and keep inflation under control means a higher-than-expected rate of economic growth.

The Council says these goals are not overambitious. Recoveries from recessions are often stronger than the general long-term economic trend. And the recent slump has created pent-up demand for such consumer goods as cars and has delayed needed public and private investment.

It may be harder to reach these levels, the Council acknowledges, if world trade expands slowly. But Canada takes such a small share of world trade that exports can increase without causing retaliation.

Among proposals to help reach the targets, the Council recommends a basketful of changes in unemployment insurance, job creation, skill development, work and savings incentives, price flexibility, competition legislation and spread of technology.

To contain inflation and increase employment, the Council recommends the Bank of Canada keep real interest rates in line with the new targets. Governments should limit spending and set economic growth and employment as priorities.

The Council does not favour another round of tight wage and price controls. Instead, it proposes governments and private citizens attempt to reach an inflation target in the 4 to 6 per cent range.

As part of this policy, the Review says federal and provincial governments should develop a system of monitoring wage and price increases. In addition, there should be discussion between representatives of industry, labour and government and the right to intervene when the inflation target is threatened.

Other recommendations to increase growth include reforming government regulation and encouraging competition as well as raising savings levels for registered pension plans and registered retirements savings plans. In the long term, higher domestic savings levels could reduce the need for foreign investment in this country.

On trade, the Council says the government should support efforts to develop a code of behaviour on non-tariff barriers within the

General Agreement of Tariffs and Trade. Protectionism is harmful and Canada shares with other countries responsibility for erecting non-tariff barriers, says the Annual Review.

The Council also supports federal proposals for exploring free trade with the U.S. in certain economic sectors. It notes that recommendations by an auto industry task force for Canadian content rules for cars sold in Canada could undermine the benefits of free trade if applied to many countries. Ottawa should explore ways of stimulating auto production without turning to such trade barriers, the Council says.

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PRESERVE UNIVERSAL MEDICARE, THE COUNCIL SAYS

OTTAWA -- The Economic Council of Canada warned today against undermining universal medicare and urged new steps to help low-income tenants, single-parent families and women with inadequate pension rights.

While governments must attempt to contain health costs, they should also keep a sharp eye on extra-billing and hospital user fees, says the Council in its Twentieth Annual Review of the economy.

The Council judged that these practices are not a major concern now but they could eventually destroy good standards of medical care.

Extra-billing by doctors above medicare payments is widespread in Ontario, Alberta, and Nova Scotia, the Council says, and other provinces also permit the practice.

On other social issues, the Council report recommends shelter allowances to deal with low-income housing problems, new ways for women to expand and improve pension rights, and a child tax credit

plan to reduce the number of children in poverty and increase the incomes of poor families.

In many ways, Canadians are better off than ever before, the Annual Review says, but a major recession and broad social changes since the Council was formed 20 years ago have revealed many unmet needs.

These social changes include a growing number of people on welfare, more women in the workforce, more single-parent families, and an aging population.

The gradual aging of the population threatens to add to health costs at a time when provincial governments are already troubled about current spending on medical care. Governments should try to limit cost increases through more preventive care, expansion of paramedic services, and such programs as home care and community clinics, the Annual Review says.

But the Council says it does not endorse "provincial initiatives that would have the effect of transferring to the sick and the aged what are now public expenditure commitments." Most provinces allow extra billing and some charge monthly family premiums or impose daily hospital user fees.

On the other hand, extra billing adds only about 4 per cent to average provincial health care costs. And the Canada Health Act is not being violated as long as patients are free to choose between doctors in medicare and those who have opted out.

The danger is that extra billing could expand and make it tough for patients to get medical care fully paid for under the public health insurance system, the Council says.

To cope with this, the Council recommends provincial governments collect and publish information on extra billing. In some

communities, people can only get service from doctors who extra bill. Hospital user fees should be curbed.

As for women in the workforce, there are some positive signs. For example, their share of employed workers has grown to more than 40 per cent from about 20 per cent 30 years ago. Many younger women have entered professions requiring advanced education. But women still face problems in earnings, pensions, skill training and obtaining certain kinds of jobs.

The gap in earnings between men and women has narrowed only moderately and "there is still a substantial clustering of women in the lowest-paid occupations."

The number of single-parent families has greatly increased in recent years. Now, one out of six families with children is headed by one parent only - usually a woman.

These households are often poor, often depending on inadequate welfare and low pay. Native women fare even worse - their incomes are lower, on average, and the number of single-parent families greater than non-natives.

Another problem is the plight of elderly women over 65. More than two-thirds of women over 70 are poor.

To help poorer and single-parent families, the Council recommends the government replace the income tax deductions for children by increases in the child tax credit which is now payable primarily to the mother. Under the present system, the tax deduction for children mainly rewards wealthier people and does not offer much help to poorer families.

The Council also proposes the welfare and tax systems should be tied in better with income from work, payroll deductions and other

job expenses. The aim would be to help people combine work with welfare or take jobs instead of welfare.

Provincial education departments should use courses, student-counselling services, and adult training programs to encourage more women to gain skills in traditionally male occupations, says the Annual Review. These male occupations are often better-paid than traditionally female jobs.

Another proposal is that governments attempt to expand pension rights for women. This applies particularly to women who have remained at home a long time to look after their families.

On low-income housing, the Council says: "Whatever the merits of the Canada Mortgage and Housing Corporation's present social housing programs on other grounds, they are not an adequate vehicle of assistance for those experiencing genuine housing need."

Many people who are not in the low-income bracket are housed in projects subsidized by CMHC. One reason for the current system was to encourage a good mix of low- and middle-income families. However, the Council says the proportion of medium-income families benefitting from the program is too high.

So the Annual Review calls on provincial and federal governments to consider using shelter alowances as the prime way to meet the housing needs of poorer families. For example, low-income households could get cash payments depending on rent paid, family size and income.

Shelter allowances are already available from some provincial and municipal governments.

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JOB VOUCHER SYSTEM

OTTAWA -- Policymakers should consider adding a new twist to the unemployment insurance system - a job voucher plan that would allow unemployed workers to virtually buy jobs from employers, says the Economic Council of Canada.

The Council says in its Twentieth Annual Review released today that government, industry and labour representatives should study the idea of meshing unemployment insurance and job creation programs through a job voucher system. Workers could build up job entitlements along with unemployment insurance rights. Firms hiring workers with vouchers would get public subsidies.

Ottawa should also look at adapting the voucher system to skill re-training, the Council report says. For example, workers who had contributed to unemployment insurance for a long time might get priority for extensive re-training for technical occupations and trades.

These proposals have their drawbacks, the Annual Review acknowledges, but so do all job creation programs. The Council questions a system under which the federal government provides

close to $12 billion a year to support 1.5 million idle Canadians while supplying only $1 billion to create jobs for a much smaller number.

"When all the sums have been tallied," says the Council, "putting people back to work or usefully upgrading their skills will be less costly than continuing to support idle resources."

These job creation recommendations are part of a Council discussion of unemployment and welfare problems. The Annual Review also touches on other issues such as women in the workforce, medicare, low-income housing and the general economic outlook for the next five years.

Pressure on the welfare system is rising because of the recent jump in unemployment. If unemployment remains above 10 per cent for the next five years as the Council expects, a growing number of people will turn to welfare when their unemployment benefits run out.

Along with the sharp climb in the jobless rate over the last year or so, the average length of unemployment has increased. Combined with the increase in high wage-earners losing jobs, this has boosted unemployment costs.

To bring these costs under control and reduce human misery, employment must rise. So job creation is a major theme of the Annual Review.

Assuming no change in policy, the Council expects unemployment rates will remain in double digits for some years. If trends are better than expected, the rate may be lower.

But the Council has set an even more ambitious unemployment goal of 6-8 per cent as part of a new set of targets. A major effort could bring this target in reach.

With current institutions and trends, the Council estimates the unemployment rate can be reduced to around 7 per cent in the medium term without igniting inflation again. That is substantially higher than the 1960s but about 1 percentage point below the average level in the second half of the 1970s.

As one of a package of economic targets for the next five years, the Council is recommending Canadians aim to reduce the jobless rate to 6-8 per cent which is well below expected levels if there is no change in policy.

The Council report says some people have misgivings about the effectiveness of past federal job creation programs. Some are unattractive to small businessmen who can expand their workforces quickly.

A tax incentive system, for example, doesn't necessarily help a firm which pays little or no income tax. Many earlier programs burdened small and medium-sized businesses with too many administration headaches.

A job voucher system might be of more immediate help to small businesses and other employers, the Council suggests. A firm hiring someone drawing unemployment insurance benefits could recover part of the wage costs from the federal government right away. These vouchers - good for a set period of time - would also cut the employer's hiring costs.

Unemployed workers might also use vouchers to get retraining, the Annual Review says. Such a program would primarily benefit experienced workers so it would have to be combined with skill training courses for younger persons. Vouchers might also be used for job training and job creation for new entrants in the labour force.

So the Council recommends the federal government and industry and labour representatives look at the idea of integrating the unemployment insurance system with job creation and training programs as well as examining the feasibility of a job voucher proposal.

An international comparison of unemployment insurance and welfare systems in 1979 showed Canada did reasonably well in providing universal coverage through unemployment insurance and needs-tested social assistance. But there were shortcomings in the amount of help the Canadian system provided. By international standards, Canadian benefits were low for some families, the Annual Review said.

The Council notes that some people face particularly precarious choices. For example, women who are the sole support of their families and have to look after their children may have to take part-time work or jobs with poor security and low benefits. Often they get less money than they would if they relied entirely on welfare.

The tax system, payroll deductions and loss of welfare benefits discourage people on welfare from trying to increase their income by combining welfare payments with wages.

Since the working poor get little help from the Canada Assistance Plan, the Council urges federal and provincial governments to overhaul the plan to make sure welfare recipients don't lose out financially when they take full- or part-time jobs. They should also consider introducing special programs that would ease the transition from welfare to work, an idea already adopted in some provinces.

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News Release Communiqué

PR83/14

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A NEW TOOL FOR MEASURING PRODUCTIVITY

OTTAWA -- A new tool for measuring productivity has unearthed fresh insight which may help policymakers find new ways to improve Canada's recent dismal performance.

The measurement method, developed by Economic Council researchers Harry Postner and Lesle Wesa, singles out three industries where technological advance could boost productivity in the economy as a whole. These are communications, services to business, and finance, insurance and real estate.

This gives policymakers more options in trying to restore stable productivity growth. There has been virtually no increase in productivity in the last 10 years, a slump which slows the rise in the standard of living of Canadians.

In a study released today, Postner and Wesa recommend Statistics Canada use this new measurement system to produce another set of productivity figures at regular intervals.

The study is part of continuing work at the Economic Council on productivity. The Council published in June a major report on

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H. H. Postner and L. Wesa, Canadian Productivity Growth: An Alternative (Input-Output) Analysis. Ottawa: Supply and Services Canada, Cat. No. EC22-115/1983E. Price in Canada: $6.95; other countries: $8.35.

technology and productivity called The Bottom Line and will release another report on growth and productivity next year.

Postner and Wesa say their method requires a radical change in thinking about productivity and has a number of advantages over the traditional approach. It looks at productivity at the industry level in greater detail than before and includes the impact of trade and the contributions of other industries.

Their procedure involves a change in outlook because economists usually think of productivity as the output of a particular industry -- a production-oriented approach. But Postner and Wesa say the aim of raising productivity should be to provide more goods to consumers. So final consumption should be stressed.

This alternative approach is more flexible, the researchers say. That's because policymakers can concentrate on increasing productivity in industries which have a key impact on the final consumer rather than attempting to spread their efforts across all industries.

The usual way of measuring productivity is output per person employed. It is calculated by dividing gross domestic product by employment.

While it is easy to use, this method has disadvantages, particularly at the industry level. It does not include contributions from outside a particular industry such as raw materials, energy and contracted-out services. And it also neglects some elements within the industry itself such as equipment.

But these aspects are included in the system developed by Postner and Wesa. The influence of international trade is also added in.

In figuring out productivity levels, the two researchers count all the contributions to the final product. For example, rubber, steel, plastics, electrical products, and business services all help create an automobile.

The results produced by the two measurement systems can differ sharply at the industry level. The swings up and down in growth rates are often greater with the traditional method than with the Postner-Wesa procedure because the older approach does not include contributions from other industries.

In the transportation equipment and forestry industries, for example, the fluctuations were much greater under the conventional approach than they were under the Postner-Wesa method.

But there is less difference when you look at the economy as a whole. In fact, the average growth rates were exactly the same under both systems in the 1961-66 and 1966-71 periods. But in the years 1971-76, productivity growth dropped faster under the older procedure than under the new system.

The new tools show that the slowdown in productivity growth in 1973-78 was mainly centred in the mining industries, petroleum and coal, construction, and transportation and storage.

It also reveals that the agriculture and transportation and storage industries played a key role in improving productivity throughout the economy in the 1960s. Major technological changes in these industries had a broad impact on the economy because agriculture and transportation and storage were linked to many other industries.

But now the communications, services to business, and finance, insurance and real estate industries appear poised to take their place, the authors say. They suggest policymakers should be alert to their potential in improving productivity.

Postner and Wesa also say their findings demonstrate for the first time that domestic research and development contributes to improved productivity -- in an indirect way. Innovations in one industry lead to improvements which help another industry.

But they caution that a lot of gaps remain in the research and development statistics. They suggest Statistics Canada set out to fill these holes.

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News Release Communiqué

PR84/02

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MARCH 8, 1984

BETTER SUBSIDIES WOULD IMPROVE LIVING STANDARDS

OTTAWA -- Government subsidies to homeowners, exporters and others could be reshaped to give a slight boost to the economy and Canadian living standards, says Sylvester Damus, an Economic Council researcher.

Damus said in a study released today that converting loan subsidies to production subsidies might have yielded a gain to the economy of $92 million in 1977. A production subsidy is different from a low-interest loan in that it is a direct payment to producers to help them market their products.

The study, entitled Government Loan Subsidies, looks at the effect of government-subsidized loans on production and prices and on the use of labour and capital. And it tests the influence of subsidies on the housing, farming, export, manufacturing and other business sectors.

Using two different economic models, the author came to the same general conclusions, although there were some differences in detail.

S. Damus, Government Loan Subsidies. Ottawa: Supply and Services Canada (Cat. No. EC22-116/1984E; $5.95 in Canada and $7.15 elsewhere).

The overall effect of loan subsidies on production, prices, labour and capital is minimal, the Damus study shows.

As for manufactured exports, subsidies of $141.3 million in 1977 succeeded in increasing them by only $276 million. When repercussions on imports and the influence on the Canadian dollar are included, the overall benefits of export subsidies are reduced even further. In fact, the author said other recent policy measures had a greater impact on exports of manufactured goods than export loan subsidies.

Export subsidies have little effect on the overall balance of payments and reduce corporate profits over the long run.

"Results of this nature raise doubts about the usefulness of export subsidies to stimulate and strengthen Canadian industry," Damus said.

There would have to be major changes to the tax and subsidy system to raise manufacturing production, the author said. The demand for manufactured products depends on the tax treatment of all industries.

Better alternatives to loan subsidies could be developed for manufacturing but realistic improvements require changes in a number of tax and subsidy policies at the same time.

Financial subsidies generally reduce living standards, the author said, but subsidies to housing are an exception. They seem to help offset the effect of property taxes.

Home loan subsidies help increase housing starts, but shelter allowances would have a greater effect because they would reduce housing expenses more directly.

Production subsidies can be used to replace loan subsidies in certain circumstances and produce some improvements, the author said. But they cannot be applied with the same success in all sectors of the economy.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release Communiqué

PR84/03

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MARRIAGE CUSTOMS BLOCK WOMEN IN WORK FORCE

OTTAWA -- Marriage traditions have hampered women from doing as well as men in the work force, says widely-known economist Albert Breton.

Breton said in a study released today by the Economic Council of Canada that traditional marriages (where the male proposes) and old fashioned marriages arranged by parents have placed women at a disadvantage in the working world.

New-style marriages, where men and women are on a more equal footing, offer hope that women can narrow the gap in the labour force, he said.

To encourage this, the author suggested that husbands and wives get equal rights to "birthing leave" -- paternity or maternity leave. In that way, parents could decide whether the man or the woman will stay home to care for the infant.

Other steps should include greater support for day-care facilities and part-time jobs for both sexes.

A. Breton, Marriage, Population, and the Labour Force Participation of Women. Ottawa: Supply and Services Canada (Cat. No. EC22-117/1984E; $4.95 in Canada and $5.95 elsewhere).

Breton's study sets out to broaden the scope of traditional economic research into job and earnings differences between men and women. He said discrimination is not the only factor in these differences -- marriage also has a significant role.

The author is a University of Toronto professor and a member of the Macdonald Royal Commission on Canada's economic prospects.

Looking at marriage from an economic viewpoint, Breton said men and women enter the "marriage market" expecting certain benefits or services which include sex, children and security.

Unplanned births and large numbers of children helped tie women to the house in the past. Birth control methods were inefficient. Parents could not decide, with certainty, when and how many children they would have.

The need for economic security could also be a restriction on women working outside the home. That was especially true when security depended partly on women having many children who could learn a variety of skills to help care for the family.

At one time, parents depended on their children for economic security in old age. So they arranged marriages for their daughters to gain this benefit. This system helped determine the skills women learned.

But the modern state and the big corporation have taken over this security role. And marriage patterns have changed as well.

The dominant marriage style became what Breton calls the "traditional marriage" where men proposed and women only accepted or rejected. Security was no longer a major factor but sex and children were. Divorce costs were high, saving men the expense of finding another wife. Birth control was still inadequate.

But in recent years, contraceptive methods have become effective. And a new type of marriage has emerged, although the traditional style still dominates, Breton said. Women are now able to control the size and timing of their families to suit themselves. In these "modern marriages", women can make proposals as well as accept or reject them.

These marriages and better birth control techniques "make it possible for women to participate in the labour market on the same terms and conditions as men," the author said. But women still face some constraints.

He makes a case for a growing state role in expanding day care and paternity leave. Maternity leave alone can work against women in the labour force because it lowers the demand for their employment, Breton said.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release Communiqué

PR84/04

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EXPORT AID COST CANADA $1 TO $2 BILLION IN DECADE

OTTAWA -- The cost to the economy of subsidies by the federal export aid agency was an estimated $1 billion to $2 billion in the 1970s, says a new study.

The study, carried out for the Economic Council of Canada, concludes this cost was the price tag for spending funds on Export Development Corporation programs rather than using the money elsewhere in the 1970-80 period.

The gains to society must at least equal these costs if the export aid program is to be judged socially beneficial, says the study released today. These benefits are difficult to measure and the authors did not attempt the task in this project.

But they do raise doubts about whether the current EDC program is the best way to boost exports. They suggest trade liberalization would be a more efficient way to stimulate exports.

The authors are André Raynauld, former Council chairman and now a University of Montreal professor, and two colleagues at the university, Jean-Marie Dufour and Daniel Racette.

A. Raynauld, J.-M. Dufour, and D. Racette, Government Assistance to Export Financing. Ottawa: Supply and Services Canada (Cat. No. EC22-114/1984E; $7.95 in Canada and $9.55 elsewhere).

Raynauld and his co-authors set out to see whether the Export Development Corporation objectives make good sense and to determine the economic and social costs of the EDC subsidy efforts.

Their conclusion:

"In general terms, our judgment is that the EDC performs the tasks that it is assigned by government very well, but we question whether these tasks and the methods used for carrying them out are appropriate."

Government reasons for export aid include promoting exports, diversifying trade, encouraging sales of processed goods and some services, supplementing the private sector, and matching foreign export aid programs.

Currently, EDC loans, credits and insurance support only about 5 per per cent of the $85 billion a year in Canadian exports. However, about 70 per cent of Canadian trade is with the United States where EDC financing is less important.

Weighing the overall economic impact of EDC aid in the 1970s, the researchers state the rate of return on corporation programs came close to equalling the government's cost of borrowing funds.

But they go on to paint a more complete picture by focusing on the cost to Canada of using money for export aid rather than in other areas of the economy. They conclude that the average annual cost to the economy ranged between $92 million and $200 million between 1970 and 1980.

Looking at the reasons for export aid in more detail, the Raynauld study finds flaws in some of the thinking.

For example, the study says the government goal of increasing exports is too general. Export subsidies may create jobs but funds for these subsidies are taken from other sectors of the economy which also produce employment.

The EDC programs do help diversify trade, one of the corporations's goals; but it is hard to tell how much this benefits the country as a whole, they say.

The precise impact of specific subsidies is also difficult to estimate. Trade liberalization, the study says, would be more efficient than subsidies in encouraging exports.

Raynauld and his co-authors recommend the government tie export aid to benefits for Canada, much as the Foreign Investment Review Agency demands evidence that foreign investment in this country will bring additional benefits to Canadians.

They also urge a greater private role in export financing, a position also taken by the Council in its major report on government lending, Intervention and Efficiency, released in late 1982.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release Communiqué

PR84/09

DO NOT RELEASE BEFORE
11:00 A.M. (EDT)
JUNE 6, 1984

SMALL BUSINESS DEBT PROBLEM PROBED

QUEBEC -- The financial woes of small business are often blamed on problems in getting loans.

But economists Jean-Marie Gagnon of Laval University and Benoît Papillon, a former Economic Council of Canada researcher, have found there is no loan shortage for small and medium-sized firms.

In fact, the problem seems to be an overdose of lending, say Gagnon and Papillon in a study prepared for the Economic Council.

The study, released here today, says that small and medium-sized companies have a higher debt load compared to assets than larger firms. A high debt-to-assets ratio is financially risky.

There are other signs of financial ill-health uncovered in a study of company financial statements by the two researchers. As well as debt-to-assets ratios, they examined rates of return and the burden of short-term debt.

Jean-Marie Gagnon and Benoît Papillon, Financial Risk, Rate of Return of Canadian Firms, and Implicatins for Government Intervention. Ottawa: Supply and Services Canada (Cat. No. EC22-118/1984E; $8,95 in Canada and $10.75 in other countries).

The research study broke new ground because it looked at the financial strength of small and medium-sized firms at the company and industry level rather than on an economy-wide basis.

They used financial data collected by Statistics Canada on 14,870 firms. They broke this down into 23 industry groups, 10 roughly similar regions across the country, and six classes of firms ranging in size from less than $250,000 in total assets in the lowest group to more than $25 million in the highest.

Their aim was to find out whether there are weaknesses in capital markets and, if so, whether a strong government lending role is required. They also wanted to determine in what ways small businesses are different from larger corporations in their financial makeup.

Interestingly, they found no connection between region and the debt problems of firms. There is no evidence that the location of a company had an effect on its financial well-being, once other factors, such as company size and type of industry, are taken into account.

Along with higher debt burdens, smaller companies are more likely to have extremely high profits or losses than larger firms, say Gagnon and Papillon. So they appear riskier financially even though the vast majority of small companies have fairly stable rates of return.

The higher proportion of debt -- or loans -- indicates small companies have no trouble borrowing money. However, smaller companies have more difficulty getting equity financing.

Because of this, the researchers say there is apparently no need for current federal and provincial loan programs and lending institutions.

They say current government programs are not economically efficient and actually help smaller firms to increase debt rather than equity. This remains generally true although some efforts have been made by governments to bolster the equity base of small firms.

To improve the financial picture for small and medium-sized companies, Papillon and Gagnon suggest such steps as better investment incentives and removal of barriers to new bidders entering the market for new stock issues.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release Communiqué

PR84/12

DO NOT RELEASE
BEFORE 11:00 AM (EDT)
June 6, 1984

DEBT PROBLEM OF SMALL BUSINESSES WORSENING

QUEBEC -- The heavy debt problem of small businesses has risen sharply in recent years and has spread to medium-sized firms, says Patrick Robert, director of the Economic Council of Canada.

Robert said here today that almost one in every five small independent companies in the primary and secondary sectors had more debts than assets in 1981, up from a bit more than one in 10 firms in 1977. The proportion of medium-sized companies with very high debt loads also rose in this period.

On the occasion of the release of a new research study by economists Jean-Marie Gagnon and Benoît Papillon, Robert recalled some of the major findings of the Council's 1982 report Intervention and Efficiency.

He noted that, based on data from the mid-1970s, this report brought to light the large debt burden shouldered by small business. On that basis, the Council recommended that governments modify their business assistance policies to facilitate the

strengthening of the equity base of Canadian firms, particularly small and medium-sized businesses.

An update of the report's findings prepared by Council staff, shows that the financial health of businesses has worsened in the 1977-81 period. The Council figures include a regional breakdown as well as national figures.

The proportion of medium-sized independent corporations with more debts than assets was not nearly as high as for small firms -- just over 4 per cent in 1981, the last year for which figures are available.

But 27 per cent of these medium-sized enterprises had debt loads amounting to more than 77 per cent of assets, a very high rate. That was a big jump from about 16 per cent of these companies in 1977.

A major reason for the deteriorating health of businesses was the tendency toward more short-term loans in the 1977-81 period. Slow growth, high inflation and rising interest rates were all contributing factors.

The average debt load of medium-sized firms increased relatively more than that of small firms in the 1977-81 period. So they have now joined small companies in carrying a much higher debt burden than larger corporations.

The data also show that independent firms carry more debt proportionately than subsidiaries of foreign companies or companies belonging to a conglomerate. That's because subsidiaries can get money from parent corporations.

The percentage of independent firms with large debt increased dramatically in this five-year period in all size categories and in all regions (Table 2). Smaller firms remain in much worse shape than larger enterprises.

Debt levels appear higher for companies in the service industry than those in the primary and secondary sectors (Table 3 shows data for all independent firms).

The interest coverage ratio, which shows the capacity of firms to assume their debt, increases with the size of firms (Table 4). That confirms that smaller companies have more trouble meeting their debt obligations.

For all sizes of firms, the ratio rose between 1977 and 1979 as profitability increased. It declined between 1979 and 1981 as interest rates climbed and profitability dropped. Council figures show that the national pattern held for each region as well (Tables 4M, 4Q, 4O, 4P and 4B).

Throughout this period -- and in all regions -- there was a greater swing in profits among smaller companies than among larger

ones. Relatively more small firms than large corporations had losses and extremely high profits (Tables 5M, 5Q, 5O, 5P and 5B.)

Robert said that Council staff prepared information on the Atlantic provinces, Quebec, Ontario, the Prairie provinces and British Columbia.

But care should be taken not to compare regions, he said, because differences may be more apparent than real. Furthermore the differences, if any, are largely due to the different industries in each region.

The general picture in each region is that small and medium-sized firms struggle with a heavier debt burden than larger enterprises.

Robert noted that detailed balance sheet data are not available beyond 1981. However figures for large corporations show a continued deterioration of their financial health until mid-1983 and the recovery had in some cases been rather slow. The update thus confirms the diagnosis made in Intervention and Efficiency and reinforces the Council's recommendations.

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Selected Indicators of Business Financial Situation (1977-81)

The following tables are drawn from an update prepared by the research staff of the Council under the direction of André Ryba, of information presented in Chapter 3 of the Council's report *Intervention and Efficiency*.

Table 1

Independent corporations in the primary and secondary sectors with a heavy debt load, by size of assets

	Assets					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 or more
1. Percentage of independent corporations with more debt than asset (negative equity) by asset size, Canada.						
1977	11.1	5.3	4.7	3.0	2.4	2.4
1980	14.2	6.7	4.6	2.4	3.7	2.3
1981	17.8	5.5	4.9	4.2	4.2	2.1
2. Percentage of independent corporations with a ratio of debt to asset greater than 77 per cent.						
1977	27.1	21.4	19.4	16.3	11.0	8.7
1980	32.8	25.3	21.4	19.3	19.2	12.8
1981	36.1	23.0	23.2	26.7	20.6	14.4

Source Economic Council of Canada.

Table 2

Percentage of independent corporations in the primary and secondary sectors with a ratio of debt to asset greater than 77 per cent, by asset size.

	Assets					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 or more
Canada						
1977	27.1	21.4	19.4	16.3	11.0	8.7
1981	36.1	23.0	23.2	26.7	20.6	14.4
Maritimes						
1977	28.3	33.3	23.6	27.6	n/a	20.0
1981	37.7	30.9	24.1	28.6	n/a	26.1
Quebec						
1977	21.9	17.5	16.7	11.1	14.2	5.0
1981	26.9	19.7	18.9	25.9	20.8	11.3
Ontario						
1977	28.0	18.9	13.8	25.9	20.8	11.3
1981	35.0	21.8	18.4	16.1	11.9	7.2
Prairies						
1977	28.9	24.5	20.1	20.4	9.6	10.4
1981	34.2	26.1	31.5	34.2	21.8	13.9
British Columbia						
1977	35.7	26.0	31.1	21.6	n/a	13.0
1981	38.4	26.6	n/a	24.1	18.4	21.1

Source Economic Council of Canada

Table 3

Percentage of all independent corporations with negative equity and with a debt to asset ratio greater than 77 per cent, by asset size, Canada 1981.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and more
Negative equity	17.3	6.3	5.1	4.7	4.4	3.0
Debt/asset greater than 77 %	37.1	26.7	32.9	38.2	32.3	24.7

Source Economic Council of Canada.

Table 4

Interest Coverage Ratio (Ratio of income before taxes, depreciation and interest to interest payments) of Corporation by Asset Size, Canada

	Assets					
	less than $249 000	$250 000 to $999 999	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
1977	3.3	4.9	4.9	5.1	6.0	6.5
1978	4.3	5.4	5.7	5.7	7.0	7.2
1979	5.5	5.4	5.4	5.8	6.5	7.7
1980	4.3	4.6	4.1	4.6	5.2	6.8
1981	4.1	4.1	3.4	3.6	3.8	4.8

Source Economic Council of Canada.

Table 4M

Interest Coverage Ratio (Ratio of income before taxes, depreciation and interest to interest payments) of Corporation by Asset Size, Maritimes

	Assets					
	less than $249 000	$250 000 to $999 999	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
1977	4.0	3.3	3.9	3.5	5.9	n/a
1978	4.1	4.8	4.9	3.9	5.8	n/a
1979	5.7	5.1	5.6	5.9	4.6	n/a
1980	3.3	4.1	4.0	3.9	3.4	n/a
1981	3.4	3.0	2.8	2.9	2.8	n/a

Source Economic Council of Canada.

Table 4Q

Interest Coverage Ratio (Ratio of income before taxes, depreciation and interest to interest payments) of Corporation by Asset Size, Quebec

	Assets					
	less than $249 000	$250 000 to $999 999	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
1977	3.9	4.8	4.6	4.0	5.1	5.4
1978	3.9	4.8	5.3	4.8	5.6	5.2
1979	4.9	4.9	4.9	4.5	5.8	5.5
1980	3.7	4.0	3.7	4.2	4.1	5.1
1981	3.2	3.9	3.4	3.5	3.1	4.3

Source Economic Council of Canada.

Table 40

Interest Coverage Ratio (Ratio of income before taxes, depreciation and interest to interest payments) of Corporation by Asset Size, Ontario

	Assets					
	less than $249 000	$250 000 to $999 999	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
1977	2.8	5.0	5.9	6.0	6.3	5.9
1978	4.7	5.4	5.9	6.1	7.8	6.8
1979	4.9	5.8	5.9	6.3	7.2	7.2
1980	4.3	5.0	4.5	5.1	6.2	6.6
1981	4.6	4.4	3.8	4.4	4.7	4.9

Source Economic Council of Canada.

Table 4P

Interest Coverage Ratio (Ratio of income before taxes, depreciation and interest to interest payments) of Corporation by Asset Size, Prairies

	Assets					
	less than $249 000	$250 000 to $999 999	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
1977	4.2	5.7	4.6	5.7	7.0	n/a
1978	4.7	6.3	5.9	5.4	7.0	n/a
1979	6.9	6.0	5.1	5.0	6.7	n/a
1980	5.4	5.4	3.9	3.9	5.6	n/a
1981	4.8	4.4	3.3	3.4	4.0	n/a

Source Economic Council of Canada.

Table 4B

Interest Coverage Ratio (Ratio of income before taxes, depreciation and interest to interest payments) of Corporation by Asset Size, British Columbia

	Assets					
	less than $249 000	$250 000 to $999 999	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
1977	1.7	4.6	4.4	5.6	7.0	6.7
1978	4.2	5.5	5.7	6.5	7.9	6.8
1979	5.1	4.9	5.3	6.6	6.1	8.0
1980	4.4	4.5	4.1	4.9	4.5	7.5
1981	3.7	3.8	3.2	2.6	2.5	4.1

Source Economic Council of Canada.

Table 5

Distribution of firms with negative and high rates of return, by size of firms, Canada.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
Rate of Return						
1977						
Negative	34.2	17.7	16.3	15.3	14.7	10.3
Greater than 16 %	28.9	29.6	22.2	22.2	23.3	22.6
1979						
Negative	23.9	11.2	9.7	8.9	9.6	7.5
Greater than 16 %	40.7	39.4	29.0	32.8	32.9	32.5
1981						
Negative	26.2	12.5	10.0	9.7	13.5	12.2
Greater than 16 %	39.9	39.9	26.5	28.1	30.4	27.3

Source Economic Council of Canada.

Table 5M

Distribution of firms with negative and high rates of return, by size of firms, Maritimes.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
Rate of Return						
1977						
Negative	34.5	19.1	22.6	17.6	13.8	5.3
Greater than 16 %	25.4	24.6	20.6	10.2	16.9	28.9
1979						
Negative	19.9	9.6	15.0	5.0	14.6	6.5
Greater than 16 %	42.2	37.0	27.4	31.5	31.7	35.5
1981						
Negative	27.7	15.6	12.4	9.4	17.2	12.8
Greater than 16 %	32.6	31.4	23.2	22.4	25.3	27.7

Source Economic Council of Canada.

Table 5Q

Distribution of firms with negative and high rates of return, by size of firms, Quebec.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
Rate of Return						
1977						
Negative	31.3	16.3	14.9	15.0	18.9	10.9
Greater than 16 %	29.2	27.1	19.9	17.7	20.2	18.2
1979						
Negative	24.1	8.6	7.5	8.2	10.5	9.2
Greater than 16 %	36.6	34.8	29.0	30.1	29.0	24.8
1981						
Negative	28.3	12.0	8.7	7.9	12.4	13.3
Greater than 16 %	33.9	32.2	27.4	26.4	26.7	24.6

Source Economic Council of Canada.

Table 50

Distribution of firms with negative and high rates of return, by size of firms, Ontario.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
Rate of Return						
1977						
Negative	35.9	19.1	16.6	17.1	12.7	10.4
Greater than 16 %	27.6	29.8	24.1	24.2	23.5	20.7
1979						
Negative	26.3	11.5	10.7	10.3	8.8	4.3
Greater than 16 %	39.7	39.7	29.5	35.5	35.8	32 3
1981						
Negative	25.7	11.5	9.3	9.2	10.3	8.8
Greater than 16 %	40.6	40.7	26.7	32.2	37.5	29.5

Source Economic Council of Canada.

Table 5P

Distribution of firms with negative and high rates of return, by size of firms, Prairies.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
Rate of Return						
1977						
Negative	32.4	15.5	15.0	10.5	13.9	11.2
Greater than 16 %	33.1	36.8	24.7	24.8	28.4	31.6
1979						
Negative	21.1	11.3	8.5	10.2	8.3	11.0
Greater than 16 %	47.2	46.6	28.8	30.6	31.5	36.4
1981						
Negative	23.3	11.7	10.1	8.4	15.9	14.9
Greater than 16 %	44.6	47.5	27.1	27.7	28.0	24.2

Source Economic Council of Canada.

Table 5B

Distribution of firms with negative and high rates of return, by size of firms, British Columbia.

	Asset					
	less than $250 000	$250 000 to $999 000	$1 000 000 to $4 999 999	$5 000 000 to $9 999 999	$10 000 000 to $24 999 999	$25 000 000 and over
Rate of Return						
1977						
Negative	36.5	19.0	15.9	14.8	16.9	13.2
Greater than 16 %	28.9	27.8	21.0	27.9	28.2	25.3
1979						
Negative	25.5	16.0	10.2	5.6	9.5	11.2
Greater than 16 %	40.0	38.7	28.3	35.6	32.9	41.4
1981						
Negative	28.6	15.2	12.9	14.4	18.2	16.7
Greater than 16 %	38.8	41.5	25.6	24.6	22.2	28.7

Source Economic Council of Canada.

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News Release Communiqué

PR84/13

FOR RELEASE ON
JULY 16, 1984

SLOW SPREAD OF COMPUTER TECHNOLOGY PROBED

OTTAWA -- Computer technology has meant higher incomes for many Canadians, but it has spread surprisingly slowly in some industries.

Since technical change promotes economic growth and higher living standards, why haven't computer innovations flowed through the economy more quickly?

A research study on the insurance industry, released today by the Economic Council of Canada, pinpoints several reasons ranging from high costs to lack of industry-wide standards in computer systems.

Globerman did a case study of electronic data processing in the insurance industry to cast light on technical change in service industries. He concentrated on the life and general insurance firms with assets of more than $50 billion in 1979.

S. Globerman, The Adoption of Computer Technology by Insurance Companies. Ottawa: Supply and Services Canada (Cat. No. EC22-119/1984E; $4.95 in Canada and $5.95 in other countries).

Computers got off to a fast start in the insurance business, but the technology spread sluggishly afterwards. In that sense, the insurance industry is fairly typical of service industries which have been slower to adopt technical changes than the manufacturing sector.

But Canadian insurers have not lagged behind American insurance firms. The author finds they had "remarkably similar" records over the last 30 years. U.S. firms were slightly faster in using computers originally but Canadian companies caught up and were using them more extensively in the mid-1970s.

Canadian insurers began using computers almost 30 years ago. By 1960, they accounted for 16 per cent of computer use in Canada while employing only 4 per cent of Canadian workers. It was a promising beginning.

Yet 88 per bent of insurance companies were still not using computers at all by 1969. And by 1982, 90 per cent of local agency offices were not automated.

Why the slowdown after such a quick start?

The high cost of buying and using large "mainframe" computers was one early obstacle. Smaller firms could not afford to acquire this expensive equipment.

But company size was not the only factor. Globerman notes that some of the non-automated insurers in 1969 were bigger than the smallest automated companies. Technology had been "scaled down" over the years so that it could be used by smaller firms.

These "scaling down" techniques included mini- and micro-computers, service bureaus and computer networks.

The service bureau is simply a computer rental system allowing small firms to use the services of a central processing unit owned by computer service companies or large insurers.

Computer networks linking regional offices and head office enable much of the data processing to be done locally. And small computers permit local insurance agents to link directly with insurance companies.

But Globerman says many small companies did not use the service bureau system. And most local insurance agents had not installed computer terminals by 1982.

So the author lists another set of barriers to effectively spreading computer services in the insurance business. These obstacles to "scaling down" include limited help in designing new computers and programs for the needs of smaller insurers, a shortage of systems analysts and programmers, and lack of standard equipment.

Globerman proposes several remedies including standardized computer systems. Industry groups are already at work on standardization and the author says governments should keep hands off unless the effort bogs down.

The public education system is a bottleneck, failing to meet the growing demand for data processing training and computer science programs, he says. He recommends reform to make the educational system more flexible, but he does not hold out much hope that this can be done quickly.

He urges a "fairly free flow" of skilled labour and data and data processing services between the U.S. and Canada to fill current demand. The spread of technology would be hampered if this flow were restricted, he says.

The findings of this study are the personal responsibility of the author and, as such, have not been endorsed by the Members of the Economic Council of Canada

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PR84/14

STEADY GROWTH EXPECTED IN WEST

EDMONTON -- Western Canadians can expect good economic growth in coming years, even though natural resource industries will expand more slowly than in the 1970s.

The western economy as a whole will do better than the natural resource sector alone, says the Economic Council of Canada in a major report released today. The economy will get a boost from the rapidly developing service sector and -- to a lesser extent -- some manufacturing industries.

The report, entitled Western Transition, says that economic performance could be even better with the help of new government policies in the natural resource and service sectors. Certainly, the West should do about as well as Canada as a whole once the current economic recovery is complete. However, the western economy will expand less rapidly than the exceptionally high growth rates of the 1970s.

The study report is the result of more than two years' research on the economic problems and prospects of western Canada. The Council relied heavily on work by western researchers as well as by Council staff.

One of the Council's major conclusions is that while natural resources will continue to play a key role in the western economy,

the region may come to depend as much on the service and manufacturing industries for success.

"If this comes to pass, the West will be intrinsically more stable in the future, offering more reliable long-term growth than it ever has in the past."

Here are some highlights from the report:

--The forestry industry, a driving force in the British Columbia economy, may be forced to cut back production substantially over the next 20 years because of supply and demand problems. The Council recommends a major change in forest management policies that would overcome these difficulties.

--The oil and gas industries will contribute less to western growth in the 1980s and 1990s than they have in the past decade. That will hit Alberta harder than the other provinces, bringing its once high economic growth rate roughly in line with the national average.

--Grain production is likely to increase less rapidly in the next 15 years than in the 1970s. The real price of grain -- the market price minus the inflation rate -- is expected to drop during the 1980s.

--The chances for expanding western livestock and meat sales in the Canadian market are limited but there are opportunities in the United States and Japan. However, this calls for changes such as better market research and a possible reorganization of the industry.

--The Council urges another look at paying the Crow Benefit payment for grain transportation to farmers rather than to the railways. The

railways now receive the money under recent legislation changing the controversial Crow grain freight rate system.

--The service sector has created most new jobs in the West in the last 20 years and helps raise living standards. Governments should pay more attention to this sector if they want to guarantee continued western prosperity.

--Manufacturing will continue to develop but there will be "no major breakthroughs." Because western manufacturing is small, even a big surge forward will not make a major difference in the overall regional economy.

The Council says a key question is whether western economic prosperity will always be uncertain because it depends on natural resources. It says that uncertainty is not inevitable. And after looking at different regional development theories, the report concludes that many policies can improve economic performance whatever the long-term outlook.

Some of the most far-reaching changes proposed by the Council are aimed at the troubled forestry industry. The industry is a factor in all western provinces but it is central in British Columbia.

The B.C. Ministry of Forests has forecast that, ultimately, timber supply will decline to two-thirds of current levels as mature forests are cut down and replaced by new growth. The B.C. government has now decided to set production ceilings to avoid too sudden a cutback in production in the 21st century.

This approach is based on physical and biological standards for managing forests. But the Council says there is a high economic cost

to British Columbians in not cutting down older trees whose valuable growth period is over, and replanting now.

So the Council report recommends measures to harvest some older forests more quickly than planned while replanting and cutting new trees faster. At the same time, there would have to be adequate environmental protection.

The public and private sectors should invest in better forest management, the report says. The Council proposes a B.C. savings fund along the lines of the Alberta and Saskatchewan Heritage Funds to provide money.

There is less chance that new policies could reverse the expected slowdown in the growth of the western oil and gas industries. The Council is leaving a detailed description of these industries to an important report on energy later this year.

However, the Council says that the gas and oil industries will stimulate growth in the economy much less because prices in these industries will rise more slowly. Moreover, conventional and synthetic sources in the year 2000 are likely to be no higher than 1983 levels. The natural gas industry will probably boost production at a 2.8 per cent annual rate -- less than half the 1963-81 average.

The present gas pricing system is too rigid and hampers Canada in competing for U.S. markets, the report says. The Council recommends a more flexible system to take advantage of the wide variety of local conditions in the United States.

The outlook for farming is little brighter. It's still an important industry, accounting for $10 billion in sales, 5 per cent

of output and 12 per cent of jobs in the Prairie provinces in 1982. But the value of grain production will rise more slowly and farm incomes will likely become more erratic.

As one step to stabler incomes for grain farmers, the Council suggests Canada should push harder for an international wheat agreement. Such an accord might prevent sudden shifts in international prices. However, Canada might have to give up its own two-price system to gain the agreement.

Other efforts such as bolstering the Grain Stabilization Program and increasing productivity could also help.

The strategy in the beef industry should be to mount a big export drive in the U.S. and Japanese markets, the Council says. The industry should see whether a reorganization is needed to take advantage of opportunities in these markets, which are different from Canada's.

The best prospects for increased jobs lie in service industries such as finance, insurance and real estate, and community, business and personal services. Services created three-quarters of new jobs in the West in the 1961-81 period. Twenty per cent of new jobs were generated in wholesale and retail trade alone.

Improved productivity and efficiency in the service sector raises living standards. Productivity can be increased through specialization such as setting up engineering consulting firms; through technological changes such as office automation; and through locating in large cities with easy access to customers and suppliers.

The Council recommends that governments review current policies to see if they can find ways to improve efficiency in service industries and promote technical change. The report also urges provincial governments to consider not only the social value of small towns and rural life but also the economic benefits of encouraging growth in large cities.

Manufacturing has played a smaller part in the West than it has in central Canada and still does. But for half a century, it has expanded more rapidly in the West, particularly in the Prairie provinces. It is surprisingly diversified and far from insignificant.

The Council report projects faster growth in manufacturing in Alberta and Saskatchewan and also a slight improvement in Manitoba's performance. B.C. manufacturing is not expected to grow particularly strongly.

Business and government should together seek new manufacturing opportunities, the Council says.

The report also examines potash, uranium and coal prospects and projects good but less spectacular growth than in the 1970s. Measures to improve Pacific fisheries are also recommended.

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WEST DOES WELL IN JOBS, LIVING STANDARDS

EDMONTON -- The overall western performance in job opportunities and living standards stacks up well with the central Canadian record, says the Economic Council of Canada.

Westerners have done particularly well in per capita incomes, leading the country in the 1978-81 period, says the Council in a major report released today. And, aside from British Columbia, jobless rates in the West have been generally lower than national levels. The West also does well in a variety of job opportunities and income stability.

However, there are variations between provinces, the Council notes in a new study, Western Transition. Average incomes were considerably higher in Alberta and British Columbia than in Manitoba and Saskatchewan, and incomes fluctuated more in Saskatchewan than elsewhere.

The western study looks at economic prospects in the Prairie provinces and British Columbia as well as in specific western industries such as agriculture and oil and natural gas.

"The western economies have done considerably better with respect to our basic economic indicators than traditionally believed," the report says.

Over the 1978-81 period, western per capita incomes average $12,771 a year compared with $12,288 for Ontario and $11,633 for the nation

as a whole. Within the West, income levels ranged between Manitoba's $10,387 and Alberta's $14,751.

In the last 20 years, western incomes have been rising at an annual average of 5.2 per cent, more than one percentage point higher than Ontario incomes. But incomes in the West tend to rise and fall a bit more than in Ontario.

Unemployment rates in the Prairies have been consistently below the national average in the last 30 years. But jobless levels have been frequently higher in British Columbia.

Western Canada also does surprisingly well in variety of jobs, the Council says. There is about as high a proportion of good jobs in the West as in central Canada. The report defines good jobs as occupations calling for a good education and high pay and status.

The Council also attempted a balance sheet of the benefits and costs of Confederation to Westerners. But the report concludes that the question of whether the West gains or loses "turns out to be unanswerable."

Arguments that central Canada gets jobs while the West pays the price through tariff barriers don't stand up to close examination, says the Council. Both regions pay the price while few jobs are gained from tariffs against imported goods.

Looking at federal revenues and spending in western Canada, the report says that British Columbians and Albertans both paid more than they gained in 1981. Manitobans and Saskatchewanians received more than they paid. Twenty years before, all four western provinces got more federal money than they paid to Ottawa.

But it is hard to judge the meaning of these findings, the Council says. If a province receives more than it pays, that implies that it is poorer than average. But it is better off than if it were not in Confederation. The opposite can be claimed for better-off provinces.

Yet a province's economic position in Confederation can change, the Council says. That makes a final judgment on economic benefits from Confederation a more open question. Such an exercise also does not take into account social and political aspects.

The western slice of the Canadian population is no larger today than it was 60 years ago despite the popular impression that there has been a shift westward. But in that period, both Alberta and British Columbia have gained a larger share of the country's population while Manitoba and Saskatchewan have fallen back.

Service industries provide about two-thirds of jobs in both western and central Canada, the report says. The West has less manufacturing than central Canada but the gap is steadily shrinking.

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PR84/16

MANITOBA WILL NARROW INCOME GAP

EDMONTON -- Manitobans have the lowest average incomes of all Westerners, but they are likely to start catching up in years to come.

Still, real incomes -- current income minus inflation -- will probably climb less rapidly than in the past, says the Economic Council of Canada.

The Council says in a report made public today that the province is endowed with stable average incomes, low unemployment rates by national standards and a rich variety of occupations.

But personal incomes have grown more slowly in Manitoba than in other western provinces in the last 20 years. Even Saskatchewan has surpassed Manitoba in income levels in recent years.

However, the province may be better placed for stable growth in jobs and incomes than some of its neighbours.

The service sector -- everything from restaurants to public health -- accounts for a relatively large share of the Manitoba economy. Service industries have good prospects for producing jobs and higher living standards.

Along with the most significant manufacturing sector in the Prairies, service industries help offset the less stable conditions in primary resources such as grain farming.

The Council report, Western Transition, examines the economic outlook for all four western provinces and western industries.

Services are the largest and fastest growing sector in the Manitoba economy. About 100,000 new jobs were generated in the province in the 1970s and almost one-third of them were in the community, business and personal services group alone. The services sector overall created the vast majority of new jobs.

There is room, the Council says, for improving efficiency and growth in the service industries. The report calls on governments to look for ways to reach this goal.

Some services have a particularly good chance of helping the Manitoba economy grow and produce more jobs.

Financial and insurance services, for example, do not depend on the uncertain future of natural resources to expand. These services develop as population grows.

Other services, such as transport, expand with the size of natural resource shipments. The volume of natural resource shipments is likely to rise faster than natural resource values.

Manufacturing, another growing sector in the provincial economy, contributed just over 10 per cent of new jobs in Manitoba in the 1970s. In the last 50 years, manufacturing production as a

proportion of population has grown faster in Manitoba than in Ontario or Quebec.

The Council expects slightly faster manufacturing growth than in recent years. But manufacturing will not be helped by urban expansion unless there is a government attempt to promote larger cities. Population growth and urban development are slower in Manitoba than elsewhere in the West.

Businesses and provincial and municipal governments should co-operate in Manitoba and other Prairie provinces in searching for new manufacturing opportunities.

Farming is still important in Manitoba, though less than it is in Saskatchewan. But problems of unstable grain farm incomes are the same in both provinces.

The Council projects a slowdown in expansion in production and some softening of prices in western grain farming. It recommends a number of steps to deal with the problem of bouncing prices, including strengthening the Western Grain Stabilization Program.

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PR84/17

SASKATCHEWAN ECONOMY WILL EXPAND

EDMONTON -- The Saskatchewan economy will expand steadily in the next two decades, but slower than the rapid pace of the 1970s.

The Economic Council says in a major new Western study that the provincial economy faces two main adjustments -- increasing instability in the grain industry and slower expansion in all natural resource industries.

Despite slower growth, the Council says, in Western Transition released today, that the province's lower-than-average unemployment rates are unlikely to change much. That stands in contrast with Alberta where jobless levels are expected to rise to the national average.

The slackening in the Saskatchewan economy will also not stop a gradual climb in average incomes to national levels.

On the other hand, instability in the grain industry will probably have an impact on population, the Council says. People will leave at times when grain revenues rise slowly or fall.

But there is room for government policy to boost incomes or stimulate population growth, the report says.

The western study caps more than two years of research and looks at the economic future in all four western provinces and in a variety of industries.

Incomes in Saskatchewan are considerably more unstable than in other western provinces. Saskatchewan depends more on natural resources and has less services and manufacturing than the other three provinces. Prices and incomes tend to fluctuate more in natural resource industries than in services and manufacturing.

The provincial economy since the Second World War has moved into new resource industries such as oil and natural gas, uranium and potash and a greater variety of grains. There has also been dramatic growth in the service sector.

Agriculture remains a key industry in the Saskatchewan economy. About 18 per cent of the gross provincial product is tied to agriculture and related food-processing industries. Close to one-fifth of the labour force is employed in agriculture.

Grain farmers stepped up production with the help of productivity improvements in the 1970s and prices rose, too. However, operating costs also escalated sharply. Still, the Council says the western grains trade entered the 1980s healthier than it was in the beginning of the 1970s.

The outlook, though, is not as bright over the next few years. The Council expects output will continue expanding but at a slower rate while real prices -- the market price minus inflation -- will actually decline during the 1980s. But productivity improvements might offset the impact of softer prices.

One of the biggest problems for western grain farmers is the tendency for their income to bounce up and down from year to year. To deal with this issue, the Council recommends strengthening the Western Grain Stabilization Program and pushing harder for an international wheat agreement. Fluctuating world wheat prices now have a major impact on Prairie farm incomes because so much of western wheat is exported.

Saskatchewan is in a good position to influence prices in its main potash market, the United States, because the province is the biggest single supplier. But the Council does not recommend using this power to control prices because of the bad side-effects on Canada's international trade relations.

However, the Council does expect production to rise at an average rate of 7.6 per cent a year over the next decade, somewhat less than in the past. Real prices will be relatively flat until after 1990 when they will likely rise again.

The uranium industry in Saskatchewan will see modest growth in demand and supply in the 1980s after a five-fold increase in production in the 1970s. There is likely to be no increase in real prices in the 1980s because of an oversupply of uranium internationally.

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PR84/18

OIL AND GAS SLOWDOWN CLOUDS ALBERTA OUTLOOK

EDMONTON -- Alberta's economy, which rocketed spectacularly high in the last decade or so, will settle at the national average in future years.

The Economic Council of Canada says that the main reason for this change is that the oil and natural gas industries will lose some headway in the next 15 years.

But a Council report, released today, says that there will still be good growth. Government policies in improving efficiency of service industries and in gas pricing and transportation could make the difference between growth rates a bit above national levels or slightly below.

This outline of the Alberta economy is part of a major study of the West called Western Transition.

The booming 1970s were actually an exception in Alberta's economic history. The oil-rich province performed at about a national par over the last half century and is expected to return to that trend in the 1980s and early 1990s.

The unemployment rate has been persistently below national levels until the recent recession. And job opportunities are just about as varied as in central Canada.

But, in coming years, the jobless rate will be close to the national average and incomes will climb at national rates or a bit below. The variety of occupations will not be much different than in the rest of the country.

The impact of the growth slowdown in the oil and gas industries might be worse if it were not for the burgeoning service sector. Almost half the new jobs created in Alberta in the 1971-81 period were in the trade and the community, business, and personal service industries. Services will remain a major factor in future expansion of the provincial economy and governments should look for ways to make them even more efficient and productive.

Manufacturing will continue its rapid development in Alberta, helped by a growing population and market. But even with the aid of the Alberta Heritage Fund, it will not make much of a difference to the overall provincial economy because the industry is still small.

Even though there may be expansion in manufacturing and services, the health of the oil and gas industries still vitally affects the Alberta economy.

The Council projects no increase in overall oil production in the next two decades, a considerable drop from average annual growth of 3.7 per cent in the 1961-83 period. The average rate for natural gas is expected to be 2.8 per cent, less than half the figure for the past 20 years.

While government measures are unlikely to improve the outlook significantly, the Council recommends a more flexible gas pricing policy to take advantage of different local markets in the United States.

The Alberta grain and livestock and meat industries also face problems. There will be some increase in grain output, but not as much as in the 1970s. This expansion will not be enough to sustain overall economic growth at the earlier rapid pace.

The Council proposes a number of measures to stabilize farm incomes such as an improved Western Grain Stabilization Program.

Future expansion in the beef and pork industries depends largely on exploiting foreign markets, the Council report says. It proposes better market research in California and improved contacts with Japan as well as a thorough review of the way the livestock and meat industry is organized. If changes are needed to improve sales abroad, they should be implemented.

Alberta coal production will continue expanding but there are weaknesses, particularly the industry's heavy reliance on metallurgical coal contracts with one foreign buyer, Japan. The Canadian industry has been trying to compensate by shifting more to thermal coal sales to thermal electric plants. But the falling oil price has slowed conversion of thermal plants to coal.

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News Release Communiqué

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PR84/19

FORESTRY CHANGES KEY TO B.C. FUTURE

EDMONTON -- There is "legitimate fear" about the long-run future of the British Columbia economy, but steps can be taken to improve the outlook, says the Economic Council of Canada.

The Council said in a report made public today that the key forestry industry is threatened with declining production and even timber shortages in some areas. There is uncertainty, too, about foreign markets. In fact, demand for B.C. timber may even fall in the United States over the long term.

However, British Columbia could increase production by setting new standards for cutting and planting trees and investing in better forest management, says the report Western Transition.

And more jobs and improved productivity in the service sector "could cushion growth problems in the forest industry." Expanding population and cities could aid manufacturing firms that are not tied to forestry.

The Council document deals with economic prospects in all four western provinces.

The B.C. economy has had mixed success compared with the economies of other western provinces.

Incomes have been better than average for more than 50 years but lately the Prairie provinces have been catching up. On the other hand, unemployment rates have been higher than average for a long time.

With the end of the recession, the B.C. forestry industry may hit the ceiling created by the provincial government's annual limits on logging. This would slow the industry at a time of rising prices and demand.

A slower-growing resource sector could restrain incomes, push up the jobless rate, and stem the flow of immigration into British Columbia, the Council report says. "The problem could persist for decades."

The cornerstone of the provincial economy is forestry and the industries linked to it.

The B.C. Ministry of Forests has forecast an ultimate decline in timber supply to two-thirds of current levels as mature forests are cropped and replaced by new trees. The provincial government has now chosen to set production limits to ensure output is not cut back too suddenly in the 21st century.

But the Council says this approach does not take into account the cost to society of not cutting down mature trees whose valuable growth period is over and then replanting. Many older trees are now declining in quality.

The Council recommends a change in standards which permits faster cutting of mature timber and quicker replanting and harvesting of new trees. There would also have to be adequate protection of the environment.

As well, there should be increased investment in better forest management practices. Forest management includes such measures as thinning trees, spraying, clearing underbrush and tree research. The B.C. government, the Council report says, should earmark money for this purpose from a savings fund designed along the lines of the Alberta and Saskatchewan Heritage Funds.

Another measure that would help boost B.C. incomes would be to gradually lift current B.C. restrictions on exporting logs, the Council says.

There is a good chance that service industries could improve prospects for the B.C. economy. One service industry alone -- community, business and personal services -- produced more than one-third of new jobs in the province in the 1970s. Manufacturing also contributed more than 10 per cent of new jobs.

Both services and manufacturing may benefit from a growing population and larger cities which promote efficiency. The Council has also recommended steps to improve efficiency in the service sector and to develop new opportunities for manufacturing in the West as a whole, but they also apply to British Columbia.

Improvements in the Pacific fishery are urgently needed and would increase efficiency and federal revenues. But they will not unfortunately do much to stimulate economic growth in British Columbia. The Council supports proposals by a B.C. Royal Commission for restricting fish catches and suggests sharing federal revenues from these fishing improvements with British Columbians who are directly affected.

However, the Council says that the greatest opportunity for boosting the B.C. economy lies in changes within the forestry industry.

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News Release Communiqué

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NOVEMBER 14, 1984

WOMEN IMPROVE ECONOMIC STATUS

OTTAWA -- The growing number of female workers pouring into male-dominated occupations is transforming the economic status of women.

A new study, released today by the Economic Council of Canada, has found that women steadily narrowed the earnings gap with men in the 1970s.

This gradual trend stems largely from the increasing number of women workers moving into the higher-paying, traditionally-male jobs. These are occupations where men accounted for more than 50 per cent of employees in the 1970s.

Yet a great deal needs to be done to encourage more women to diversify their education and, ultimately, their job prospects, say study authors Jac-André Boulet and Laval Lavallée.

That's because more than 50 per cent of women entering the work force in the 1971-81 period still picked traditionally-female occupations. Many of these jobs were low-paying.

Jac-André Boulet and Laval Lavallée, The Changing Economic Status of Women. Ottawa: Supply and Services Canada (Cat. No. EC22-122/1984E; $6.95 in Canada, and $8.35 elsewhere).

The authors say the future looks much improved for women. But there is room for government action to accelerate change in a number of areas such as daycare services and pensions.

The Council has been carrying out work on the economic status of women for some time and will be sponsoring a colloquium on that subject in Montreal, November 26-28. Council work in this area has included a chapter in the Council's last Annual Review, a study on the equal pay question and another on marriage and women in the labour force.

Boulet, a Council researcher, and Lavallée, an economist with the Canadian Industrial Renewal Board in Montreal, looked at the problems of single mothers, elderly and native women, as well as overall education and earnings issues. They based their work on Statistics Canada data in the 1971-81 period.

They found that 1.8 million more women entered into the working world in the years 1971 to 1981. This significant increase was proportionately much greater than the rise in the male labour force.

On an hourly basis, female earnings rose to 72 per cent of male wages in 1981 from 66 per cent a decade earlier.

But these overall figures mask some interesting contrasts.

For instance, a growing number of women with university education entered the labour force, pushing up average earnings. But this increase was partly offset by the large number of new entrants with secondary school training or less.

The bulk of those women who chose traditionally-male careers were less than 40 years old. They stayed in the labour force longer, worked longer hours during the year and had better wages, on average, than women in so-called female jobs.

For these reasons, the authors expect there will be a growing trend among women to select occupations once dominated by men.

Equal pay for work of equal, or equivalent, value is an important issue, say Boulet and Lavallée. But their evidence indicates it is not as much a factor in wage differences as is sometimes thought.

The biggest reason for the still-large difference in average earnings is that there are far fewer women proportionately than men in high-income brackets.

The authors say the most promising way for women to improve their economic status is to seek training in college and university courses that were once thought to be male preserves.

This shift is already under way. There was a 54 per cent jump in women enrolled in universities in the 1970s, many of them in commerce and science programs.

Boulet and Lavallée say governments can take steps to speed up the pace of change such as improving pension rights for elderly women, easing the daycare problem, and cracking down on men who evade maintenance support payments.

They also say there is a need for a better sharing of family responsibilities to provide women the time they need to improve their economic status at the same time as having children.

If current trends continue, the authors are confident there will be an "even more dramatic improvement" in the economic lot of women in coming years.

Better education and greater job stability should make younger women more likely to be promoted and trained. That should lead to higher pay.

The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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News Release

Communiqué

PR84/30

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DECEMBER 11, 1984

HYDRO PRICED LESS THAN ECONOMIC WORTH

OTTAWA -- Hydro-electricity consumers in the four biggest hydro generating provinces benefit from a good economic deal.

Economists Richard Zuker and Glenn Jenkins estimate these consumers in Quebec, Ontario, Manitoba and British Columbia pay much less than the overall economic value of the system - less than half in Manitoba and British Columbia in 1979.

The Zuker-Jenkins study, released today by the Economic Council of Canada, concludes that the benefit of hydro production to residents of these four provinces amounted to $4 billiion in 1979.

The researchers reached this figure of $4 billion by comparing the economic cost of hydro sold under the current system with energy from a hypothetical least cost all-thermal system, using mainly coal or nuclear power.

Zuker, currently associate director of the Council's energy group, and Jenkins, a Harvard University professor, note that this benefit is not included in calculating equalization payments to poorer provinces. But some economists say such financial gains to users should be included.

Richard C. Zuker and Glenn P. Jenkins, Blue Gold: Hydro-Electric Rent in Canada. Ottawa: Supply and Services Canada (Cat. No. EC22-120/1984E; $5.95 in Canada and $7.15 elsewhere).

If pricing policies of electric utilities were to remain as they are, the benefits of low-cost hydro must be determined for electricity consumers in all provinces across the country. That is because the four major hydro provinces sell electricity to other provinces so that their consumers also gain from low-cost hydro power.

The authors determined that the average gain to Canadian consumers was $165 per person. Results by province ranged from a high of $320 per person in Manitoba to a low of $21 in Alberta.

Zuker and Jenkins undertook this analysis to measure the size and distribution of hydro benefits because these are not as easily determined as for oil and gas resources. Hydro benefits are mainly passed on to the consumer in lower prices while provincial governments gain revenue directly from oil and gas production.

The researchers concentrated on Quebec, Ontario, Manitoba and British Columbia because those provinces generated 93 per cent of Canada's hydro-electricity produced by utilities in 1979. They included Churchill Falls power in Quebec's figures, because most of it is sold to Quebec.

The authors decided to work out the economic worth of hydro by comparing the cost of the current systems including hydro with the cost of the least expensive alternative systems without hydro. This lowest-cost alternative was an all-thermal (mainly coal or nuclear) system.

Nuclear and coal plants would mostly replace hydro stations in Ontario and Quebec, the researchers say, while generally coal would be the cheapest replacement in British Columbia and Manitoba. Gas turbines would also be used in certain circumstances in the two Western provinces.

Zuker and Jenkins included in their estimates such factors as operating and maintenance expenses for hydro generation, transmission, and distribution, cost of purchased electricity and the cost of capital. They looked at similar aspects of the all-thermal system.

The costs of an all-thermal system would have been considerably higher than hydro in 1979, the authors conclude. They say the gap between the two was highest in Quebec - about $1.8 billion. Other results were $522 million for Manitoba, $753 million for Ontario and $819 million for British Columbia.

When these amounts are broken down into unit costs, the benefits of low hydro prices to individual consumers emerge clearly.

Figures in Blue Gold indicate that if these hydro benefits are transformed into unit costs and added to 1979 revenues from hydro, the power bills of consumers in British Columbia and Manitoba would have more than doubled. Hydro prices would have almost doubled in Quebec.

Rates in Ontario would have risen only 27 per cent because hydro accounts for a much lower proportion of total power in Ontario than in the other three provinces.

> The findings of this study are the personal responsibility of the authors and, as such, have not been endorsed by the Members of the Economic Council of Canada.

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